

Cosmetics and Toiletries Market Overview



American Consulate General, Hong Kong



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AUSTRALIA

Market Overview

The cosmetics and toiletries market in Australia is an active market, offering good opportunities for new entrants. The demand for cosmetics and toiletries is estimated at US\$1.5 billion, with imports representing 50 percent. Of the total market supplied by imports, the U.S. holds a substantial share at 30 percent. Color cosmetics, which account for 45 percent of retail sales, is key to growth.

The cosmetics and toiletries industry in Australia is strongly influenced by the importance of personal appearance, both for women and men. Australians are becoming more concerned with wellness issues and seek products that prolong a youthful appearance.

In the past twelve months, sub sectors experiencing growth are color cosmetics, hair care and beauty salon products.

Color cosmetics offering appearance-enhancing benefits along with anti-aging properties are in a good position for continued growth. Increasingly, suppliers are seeking goods that emphasize, preserve and protect rather than just for cosmetic appearance, e.g., wrinkle reduction products.

Prospects are also promising for professional hair products assisted by the support of a world-renowned hairdresser or hair care company. The demand for hair straightening products is increasing, as is colorants in the men's market. Likewise, growth in the beauty salon market is primarily due to professional-based regimes being desired by Australian consumers.

Innovative quality brands incorporating premium natural and/or organic ingredients are popular. Australian women are also keen to try new salon products in a professional salon/spa environment.

U.S. companies entering the Australian cosmetic and toiletries market should consider offering innovative products. Distributors in Australia seek novel brands and in particular, products with unique benefits.

The U.S. is the single largest source of imports (30 percent), with a significant import share held also by France (18 percent), followed by the United Kingdom (10 percent).

Market Issues and Regulatory Regime

As a result of the Free Trade Agreement between the United States and Australia, the general import duty on cosmetics and toiletries decreased on January 1, 2005, from five

percent to zero. Further information about duties and customs requirements can be obtained by viewing the Australian Customs Service website: www.customs.gov.au.

When cosmetics and toiletries are shipped to Australia, the goods are subject to GST (Goods and Services Tax), which is a broad-based tax to the sale or provision of most goods and services in Australia. While the responsibility to pay GST to the Australian Taxation Office lies with the producer/supplier, it is the consumer who finally bears the GST cost. The importer pays the GST to the Australian Customs Service.

Australia has strict regulatory requirements regarding cosmetics ingredients and labeling. Primarily, ingredient safety falls under the National Industrial Chemicals Notification and Assessment Scheme (NICNAS), administered by the Department of Health and Ageing, which require approval for use of a wide range of substances, including ingredients in cosmetics. For further information, NICNAS can be found at www.nicnas.gov.au.

Cosmetic and toiletry products are subject to approval by the Therapeutic Goods Administration (TGA), which is part of the Australian Government. There are many issues concerning the registration process, as suppliers are required to demonstrate that a product is not considered to be a therapeutic good, otherwise the release of the product in Australia must follow the requirements of the Therapeutic Goods Act. Some sunscreens for example must be registered with the Australian Register of Therapeutic Goods. Further information on approval processes, including costs, can be obtained from www.tga.gov.au.

Distribution channels

There has been a marked shift in retailing of cosmetics and toiletries in Australia in recent years. Sales by traditional retailers and pharmacies are being eroded by major supermarkets. Nearly half of all cosmetics and toiletries (45 percent) are purchased through major supermarkets such as Coles and Safeway (Woolworths).

Pharmacies and cosmetic retailers (a group which once occupied a large portion of the market) now represent 35 percent of cosmetic and toiletry sales. General merchandise retailers such as Target, Kmart, and Big W stock cosmetics and toiletries at very competitive prices. However, premium cosmetics and fragrances continue to be sold by pharmacies, cosmetic retailers and department stores.

Sales growth in supermarkets is being stimulated by the increasing number of women staying in the workforce and quality products, previously exclusive in the premium and mid-market sectors, now migrating to the mass-market. This move from traditional retailers and pharmacies results in growth in the skin care and hair care sub-sectors.

Statistical sources:
Australian Bureau of Statistics

For More Information

The U.S. Commercial Service in Australia can be contacted via email at: Annette.ahern@trade.gov. Phone: 61-3-9526-5928; Fax: 61-3-9510-4660 or visit their website: www.export.gov/australia

CHINA

Summary

China's cosmetic market has been expanding rapidly over the past 20 years. Despite this significant growth, China's cosmetic consumption is still far from saturation, and the country is expected to remain a dynamic market. Nationwide sales are expected to grow at an average of 10 percent in the years ahead according to market research firm Kline & Co.

Market Demand

With a population of 1.3 billion, of which 480 million are urban residents, China has the largest number of potential cosmetic customers in the world. As a result of China's fast economic growth, living conditions should continue to improve, providing an increasing number of people with purchasing power to buy cosmetics.

Despite rapid growth, China's cosmetic market is still at a low level of development. Although China is potentially the largest customer base in the world, its per capita yearly spending on cosmetics is only about \$15. Despite this, China provides reasonable business opportunities for foreign cosmetic producers, particularly in the areas of imported middle and high end products. After 20 years of development, China's cosmetic market has become highly competitive. However, there remains potential for new entrants, provided that they adopt appropriate market entry strategies, find the right manufacturing or distribution partners, use effective marketing strategies, and make suitable products for various customer groups at reasonable price points.

Market Data

Sales of cosmetics and toiletries in China reached \$18 billion in 2010, according to Kline & Co. The continuous double-digit growth of the Chinese beauty market is driven by both rising disposable income and fierce competition motivating female and male urban white-collar workers to invest in their personal appearance.

Best Prospects

Skin Care Products:

Compared to other product segments, sales of skin care products have experienced the fastest growth in recent years. Competition in this market is fierce with prices and target customers varying significantly. The market segment for middle grade products is increasing. Domestic products are more price competitive than imported ones. However, the attraction for higher quality, name brand products is solid. Facial products especially designed for Asian skin are well received by Chinese consumers. Creams and lotions have the largest sales volumes followed by facial wash creams and bath creams.

Make-up Products:

These products have great sales potential. Advertising and sales promotions greatly influence the purchasing decisions of make-up products. Consumers usually require make-up to reflect their personal styles. As such, various brands share this market. No one brand has an overwhelming market share. Lipstick represents the largest sales among make-up products.

Baby-Care Products:

The market for baby-care products has been expanding in recent years. Given the one-child policy, many parents in China do not hesitate to increase spending for their only child. Johnson & Johnson holds the largest market share in this sector. Domestic products are competitive in price, but weak in new product development. Many young women and mothers also like to use baby or children's skin care products as they are gentler and allergy-free.

Sunscreen Products:

As the awareness about the harm of ultraviolet rays increases, the market for sunscreen has grown rapidly in recent years. Waterproof sunscreen products are enjoying increasing sales, and sunscreen products with whitening functions are also gaining favor among young Chinese women.

Key Suppliers

There are more than 3,000 cosmetic enterprises registered in China with more than 25,000 brands. Of all the brands, over 500 come from foreign countries with France, the United States, Japan and South Korea being the 4 largest brand origins.

Over the past two decades, foreign companies have been very successful at increasing brand awareness in China. Although several large domestic firms are trying to catch up in their brand building, foreign companies still dominate the market. According to the *Beijing Youth Daily*, foreign cosmetics brands currently account for almost 80 percent of sales volume, as they occupy almost all of the high-end market. And many of them are now expanding into middle and low end markets. Leading players/brands include P&G, Unilever, L'Oreal, Henkel, Shiseido, Revlon, Chanel SA, Lancôme, Dior, Estee Lauder, Maybelline, Vichy, etc.

Despite the economic downturn, L'Oreal, the world's largest cosmetic company by revenue, registered a strong sales volume of RMB 9 billion (around US\$ 1.3 billion) in China in 2010, an increase of 11 percent over the previous year making China the largest market in the Asia-Pacific region for the company.

Prospective Buyers

Department stores, specialty stores, professional beauty salons and some commercial websites typically buy and/or sell cosmetics in China.

Department Stores

Department stores are known in China for retailing high-quality products. As such, most of the prominent international cosmetics companies sell their products through high-end department stores in China's metropolitan areas. Department stores must, however, closely monitor the quality of the products that they retail, as some international cosmetics products are counterfeits or smuggled into China without proper official registration to guarantee their safety and quality.

Nowadays, most department stores in China tend to source products from distributors rather than source directly from manufacturers, as they do not want to spend too much time going through the lengthy registration process for cosmetic products.

Specialty Stores

These stores retail the products of famous international cosmetics companies and a variety of small to medium-size domestic companies. Many specialty stores are now contacting manufacturers directly for their cosmetics supplies, thus bypassing the wholesalers. SaSa, a leading cosmetic retailer based in Hong Kong, has opened more than 20 stores on the mainland in Beijing, Guangzhou, Chengdu and Shanghai. The total number of its stores in mainland China is expected to hit 100 by 2011. SaSa has 54 stores in Hong Kong and Macao, 13 in Singapore and 15 in Malaysia.

Sephore, which is a member of the luxury brand holding company Moët Hennessy Louis Vuitton, has experienced higher sales growth in China. Since opening its first Chinese mainland store in Shanghai in 2006, it has expanded to 30 stores in 8 cities and it is aiming to increase the number of stores to 100 by 2011 to cover all major cities in the country.

Beauty Salons

Beauty salons have been opening rapidly in China. A large number of high-end beauty salons and clubs are located in hotels, office buildings and high-end department stores. These beauty salons require their customers to register as members before receiving services. The salon's skin care services are used regularly by these members. The majority of the skin care products used in beauty salons are products from foreign companies, as customers prefer the higher quality and effectiveness.

Internet

Shopping on-line has grown rapidly in China in recent years. According to statistics released by the Information Office under the State Council of China, the number of Internet users in China reached 384 million by 2010. Net purchasers (those who have purchased something over the internet for at least one time) account for about 26% of all the internet users. In terms of selling cosmetics, however, not so many big foreign

cosmetic companies have started selling products on public websites. This is largely due to the slack enforcement of the country's IP protection. Although many young consumers, especially students and low-income earners, tend to buy cosmetics from B-to-C websites such as Taobao.com, often times they would find out that the products delivered to them (which are a lot cheaper than the ones sold at department stores) are fake ones. Generally speaking, on-line shopping websites like Taobao.com do not sell cosmetics themselves. But rather, they only provide a platform for individuals to buy and sell things freely on their websites. As such, nobody really knows where those products have come from.

Nevertheless, selling and buying cosmetics on the internet is a growing trend and reality in China that every player must face and deal with. US cosmetic firms are encouraged to explore this selling channel by either considering establishing their own e-commerce websites or working with reputable Chinese e-commerce companies that are not only capable of launching and marketing their products to the world's largest internet population, but more importantly, protecting their IPR in this country.

Market Entry

Distribution Companies

When it comes to selling imported cosmetic products, finding a local distributor often is the first and most preferable option. Good local distributors understand the market situation very well and can tell if a new-to-market product has any potential in China. More importantly, local distributors are in the best position to help new-to-market foreign companies navigate the very complicated import and registration process with different Chinese government agencies, thus significantly saving time for foreign companies wanting to enter the Chinese market.

Direct selling

Direct selling has historically been a popular channel for selling cosmetic products into different markets. However, direct selling in China has a turbulent history and still contains legislative challenges. As part of China's WTO commitment to allow market access for "wholesale or retail trade services away from a fixed location" by December 11, 2004, China issued two long awaited regulations governing the sector on September 2, 2005. Upon analysis, these new regulations are more restrictive than those of any other country in the world. Multi-level marketing (MLM) organizations are characterized as illegal pyramids, compensation is capped at 30% based on personal sales, and language exists which will require the construction of fixed location "service centers" in each area where sales occur. Significant barriers exist for new entrants, as evidenced by a 3-year foreign experience rule, an actual registered capital of 80 million RMB (US\$10 million) and a required 20 million RMB (US\$2.5 million) bond deposit.

There are currently 10 to 12 large-scale international firms in China that have been operating under direct-sales model. Given the very strict requirements, companies should carefully consider whether they want to adopt the direct selling model in China.

Localized production

To gain a firm footing in China, many foreign cosmetic companies have chosen to set up factories in China. Most of the foreign brands that are selling well in China are now manufactured in China. Usually these foreign companies would set up factories at development zones or industrial parks near the big cities, like Beijing, Shanghai and Guangzhou, to capitalize on lower production costs. While the initial investment for setting up a factory could be huge, it brings key benefits such as being closer to consumers, clear sales channel, easy control over brand image and lower labor cost. P&G, for example, has set up several manufacturing facilities across the country allowing it to compete with domestic counterparts even on prices, a fact that would be impossible without the localized production.

In addition, foreign cosmetic firms have attached great importance to the development of 'China-specific' products in the long run. L'Oreal opened a skin and hair research institute in Shanghai in 2005 that will create products designed specifically for Chinese women. Shiseido, Japan's biggest cosmetics company, is expanding a similar research facility in Beijing, where its China headquarters is located. According to media reports, both companies say they will experiment with traditional Chinese herbs with the aim of including them in new products.

Acquisitions

International giants have found that acquiring local firms is one of the most effective ways to expand to second and third-tier regions, or medium and low-end markets. China has the most cosmetic manufacturers in the world and about 90% of these manufacturers are small and medium-sized firms holding a relatively small percentage of the market share. However, many of these firms have well-established regional distribution networks, especially in small cities and the vast rural areas that foreign bands have yet to take. For example, French firm L'Oreal acquired Mini Nurse and Yue-Sai, both of which were famous local brands, in 2003. This deal effectively gave the firm an extended reach to many small cities that it had never been able to focus on in the past.

Market Issues & Obstacles

According to the SFDA (State Food and Drug Administration) under the Ministry of Health, People's Republic of China, all foreign cosmetic product manufacturers must complete a safety and health quality test, and obtain a hygiene permit before they are allowed to sell in the Chinese market.

Safety and Health Quality Test

This test is performed by organizations appointed by the SFDA. At present, there are three such organizations authorized by SFDA to administer such tests. The test normally takes 2-6 months while costs vary from \$700 to \$6,000 depending on the types and complexity of the products. Following is the contact information on these organizations:

China Center for Diseases Control (China CDC)
Institute for Environmental Health and Related Product Safety
#27, Nanwei Road, Beijing 100050, P.R. China
Phone: 86-10/6302-2960; Fax: 86-10/6317-0894
www.chinacdc.net.cn

Shanghai Center for Diseases Control (Shanghai CDC)
Environmental Health Section
#1380 Zhongshan Road West, Shanghai 200336, P.R. China
Phone: 86-21/6275-8710 x 21; Fax: 86-21/6209-6059
www.scdc.sh.cn

Guangdong Center for Diseases Control (Guangdong CDC)
Public Health Research Institute
#176 Xingang Road West, Guangzhou 510300, P.R. China
Phone: 86-20/8419-7952; Fax: 86-20/8446-9324
www.cdcp.org.cn

Hygiene Permit for Imported Cosmetics

This permit is granted by SFDA. The maximum time taken to review and evaluate imported cosmetics is eight months. According to some local companies that help cosmetic firms apply for this permit, actual length ranges from two to eight months. A committee under SFDA convenes to review and evaluate imported cosmetics four times a year in March, June, September, and December. Companies need to submit the following documents:

Samples of declared product;

- Formula of declared product;
- Flow chart of production process for declared product;
- Quality standard of declared product;
- Authorization letter from exporter (when using agent for registration);
- Exporter's local sales permit for declared product;
- Quarantine Certificate from exporter's government agency.
- User's guide and usage warning for declared products.

The contact information of SFDA is as follows:

State Food and Drug Administration
A-38 Beilishi Road, Xicheng District, Beijing 100810, P.R. China
Phone: 86-10-6831-5572
Fax: 86-10-6831-5776
Email: slfwzx@sfdagov.cn
www.sfda.gov.cn

It should be noted, however, that foreign cosmetic companies are not allowed to apply for a health permit by themselves. Instead, they need to use a local company to apply on their

behalf. There are a number of local companies that provide such service.

Free Sales Certificate (FSC)

US companies exporting cosmetics to China needs to obtain a FSC from the FDA in the US indicating that their products are actually being sold and marketed freely in the US market. Details about the FSC issued by FDA can be found at the following webpage:

<http://www.fda.gov/downloads/RegulatoryInformation/Guidances/ucm125822.pdf>

In addition to FDA, some US trade associations also issue this certificates to US companies. Here is the contact information of two such trade associations:

Personal Care Products Council (PCPC)

1101 17th Street, NW, Suite 300, Washington D.C. 20036-4702

Phone: (202) 331-1770

Fax: (202) 331-1969

<http://www.personalcarecouncil.org/>

Independent Cosmetic Manufacturers & Distributors (ICMD)

1220 W. Northwest Hwy Palatine, Illinois 60067

Phone: 1-800-334-2623

Fax: 847-991-8161

<http://www.icmad.org/membership/certificates.asp>

Consumption tax

China introduced the cosmetic consumption tax in 1994. Since hair and skincare products were relatively expensive, the government decided to levy a 17 percent consumption tax on these products in order to balance consumption and increase its fiscal revenue. In 1999, the government lowered the cosmetic consumption tax rate to 8 percent, as improving living standards had made some of these products parts of everyday life for many families. However, the consumption tax on high-end and luxury cosmetics such as make-up and perfume products was increased from 8 percent to 30 percent in April 2006. The consumption tax for hair and skincare products remains at 8 percent.

Trademarks

Generally speaking, China's trademark registration is fairly inexpensive and straightforward. To show its commitment to WTO pledges, local judges are encouraged to promote rule of law and act against infringements on behalf of the foreign litigants. But, remember that China's system is 'first to register' rather than 'first to market'. So, if you are seriously looking at this market, registering BEFORE you enter China can save a lot of time, money and frustration should you face infringement at a later stage. The worst case scenario is to have a competitor or other local firms register your brand name in the early stages of your market entry, forcing you to fight an uphill battle for your name. To learn more about protecting your trademark in China, please visit <http://beijing.usembassy-china.org.cn/iprtrade.html>

Administration of raw materials for cosmetics

China's authorities have periodically updated the list of ingredients that are prohibited or restricted for use in cosmetics placed on the market.

The regulation issued by the Ministry of Health modifies the Hygienic Standards for Cosmetics, which provide the specifications for cosmetics sold in China. The new regulation adds 790 substances to the list of chemicals prohibited from use in cosmetic products, bringing the total number of substances to 1,286.

According to a survey conducted among exhibitors at the Cosmoprof show in Shanghai in January 2007, most of the foreign companies welcomed the new regulation. Some experts believe that in practice foreign cosmetics makers should not be affected by the new standard, as the newly regulated substances are already covered by the European directive on cosmetic products. Therefore, it should mainly affect local producers whose production standards are below those laid out by the new regulation.

Trade Events

Guangzhou International Beauty & Cosmetic Import-Export Expo

September 16-18, 2010 (Autumn 2010)

9-11 March, 2011 (Spring 2011)

Guangzhou

Website: www.gzbeautyexpo.com

Shanghai Beauty Expo: May 18-20, 2011

Shanghai New International Expo Center

Website: www.cbebaiwen.com

Resources & Key Contacts

China Association of Fragrance Flavor and Cosmetic Industry

Website: <http://www.caffci.com.cn/>

State Food and Drug Administration (SFDA)

Website: www.sda.gov.cn

For More Information

The U.S. Commercial Service in China can be contacted via email at:

yan.shen@trade.gov (Beijing); janet.li@trade.gov (Shanghai); Eileen.bai@trade.gov (Guangzhou) Phone: 8610-8531-3557; 8621-6279-7630; 8620-8667 or visit their website: www.export.gov/china/en/

HONG KONG

Summary

Hong Kong's cosmetics, toiletries and skincare market is dominated by imports, as there is very little domestic manufacturing. China was Hong Kong's largest supplier of the US\$1.169 billion market in 2010. Japan, the U.S. and France were the other major suppliers. Hong Kong imported US\$263 million worth of cosmetics, toiletries, and skincare products from the U.S. in 2010. Imports will likely grow between 20% and 25% in 2011 and 2012 given continued robust spending domestically and from mainland Chinese visitors.

Hong Kong is an important launch pad for marketing cosmetics and skincare products into the mainland Chinese market; it acts as a showcase for the millions of Chinese tourists (23 million in 2010) that annually visit Hong Kong to shop. There are tremendous opportunities for U.S. suppliers to export to Hong Kong, as local retailers and distributors are eager to increase the variety of products that they can offer to the mainland Chinese tourists, and also eager to cater to the needs of the local population, which is increasingly looking for skincare with USDA organic certification or the latest anti-aging technology.

There are no import duties on cosmetics, toiletry and skincare products in Hong Kong and registration is not required for cosmetic products. The top ten brands accounts for about 70% of the market. Skincare products generate the lion's share of Hong Kong beauty business, followed by make-up and nail products, then perfumes and fragrances. To remain competitive, it is important to appoint a local distributor, work closely with them to promote the brand, and adapt the products to include whitening ingredients, packaging and product sizes to suit local tastes. U.S. cosmetic and toiletry suppliers are, however, known for being innovative in product development, and for producing high quality, safe products at competitive prices.

Market Demand

In 2010, the size of the cosmetics and toiletries market in Hong Kong was estimated at US\$1.169 billion. The 36 million tourists that visited Hong Kong in 2010 (of which 23 million were from mainland China augmented demand from the local market of 7 million people. According to the Hong Kong Tourism Board, about 80% of the mainland Chinese tourists who visited Hong Kong "went shopping." A Nielsen Company survey on mainland Chinese tourists' purchases revealed that cosmetic and skincare products were the top shopping purchases, followed by electronics/photographic products, clothing, and jewelry/watches. The owner of an international Italian fashion and cosmetics brand commented at their Hong Kong flagship store opening, its first in Asia, that Hong Kong "...increasingly represents a launch pad into the Chinese market; it creates the trends and acts as a showcase for this market." While China has reduced import duties on cosmetics and skincare products, thereby reducing the retail price difference between Hong Kong

and China, mainland Chinese tourists are still attracted to buying these products in Hong Kong rather than in China. According to industry sources, the perceived authenticity and reliability of the products in Hong Kong stores outweighs the price consideration. Apart from import tariffs that the mainland imposes on cosmetics, there are also VAT and product registration costs which do not exist in Hong Kong. U.S. cosmetic products enjoy an excellent reputation among Chinese consumers.

Sulwhasoo, a premium South Korean skincare brand chose Hong Kong as the first overseas market over the U.S, Japan, and France. Sulwhasoo cited Hong Kong consumers' high receptivity to new products and the open regulatory environment as reasons for choosing Hong Kong. As such, a proliferation of international cosmetics and skincare products' brands have established distribution and retail outlets in Hong Kong and have used Hong Kong as their first market to launch in Asia. This comprehensive listing of international brands, coupled with zero tariffs on imported cosmetics, perfumes and toiletries, have made Hong Kong a major cosmetics shopping destination for the tourists in the region.

The mega and luxury casino resorts in neighboring Macau (an hour ferry ride from Hong Kong) that have opened in the past three years feature facilities such as medical spas and skincare treatment centers for the many casino and MICE visitors. Macau received an estimated 24.9 million visitors in 2010 (compared with 36 million for Hong Kong), a decrease of 4.5% compared with the previous year. Demand for high quality skincare, aesthetic medical, and body treatment products and spa management services will increase in Macau. Many Hong Kong companies and cosmetic product retailers also distribute their products to Macau or operate retail stores there.

Spending by mainland Chinese tourists will continue to fuel demand for cosmetics, toiletries and skincare products in 2011. The Hong Kong economy is expected to grow four to five per cent in 2011, boosting local spending on cosmetics and skincare products.

Hong Kong is also an important entrepôt for re-exporting to China. Many U.S. companies sell their cosmetics and skincare products to China through Hong Kong distributors, as the latter are familiar with the complex product registration procedures and logistics of importing into China. Importers in China must apply to the Ministry of Health for a cosmetics import license and the regulations governing the issue of this license are very strict, particularly on the use of raw materials derived from cows. Many Hong Kong distributors have also opened skincare, hair salons and spas in China and are therefore familiar with selling skincare and cosmetic products to these institutions.

Market Data

US\$ million

	2010	2011 E	Growth (2011) E	2012E	Growth (2012) E
Imports	2086	2503	20%	3129	25%
Local production	65	72	10%	81	12%

Exports	982	1326	35%	1697	28%
Total Market	1169	1249	7%	1513	21%
Imports from U.S.	263	316	20%	395	25%
Exchange Rates	7.8	7.8		7.8	

Sources: Hong Kong Trade Statistics and Industry Sources

E: estimate

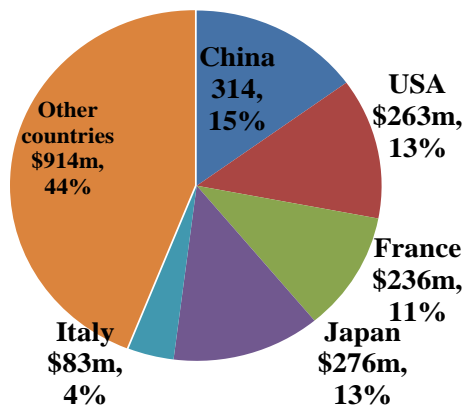
Domestic Production

There are about 50 manufacturers of cosmetics and toiletries in Hong Kong, producing mostly lower-priced to mid priced products under their own labels for export to Southeast Asia, the U.S. and China and OEM /private label production for skincare salons, spas, dermatologists and medical practitioners. Voles International Ltd. and Hin Sang Hong Co. Ltd. are the leading local manufacturers. Voles' retail sales was rated eleventh in Euromonitor International's survey of the top companies retailing skincare products in Hong Kong in 2010.

China and Hong Kong signed the Closer Economic Partnership Agreement (CEPA) on June 29, 2003 allowing several categories of goods, including cosmetics and toiletries, to be imported into China through Hong Kong free of any tariffs (subject to Hong Kong origin requirements.) Under CEPA's rules of origin for cosmetics and toiletries, mixing, blending and heating are processes that must be performed in Hong Kong to qualify as a Hong Kong-origin product. Domestic production of cosmetics, toiletries, and skincare products is expected to increase as more local manufacturers take advantage of CEPA to produce for export to mainland China and for private labels. To qualify for the duty-free access to China, U.S. manufacturers must transfer some blending and mixing processes to Hong Kong.

Imports

Hong Kong's Imports of Cosmetics, Toiletry and Skincare Products by Source and Market Share, 2010

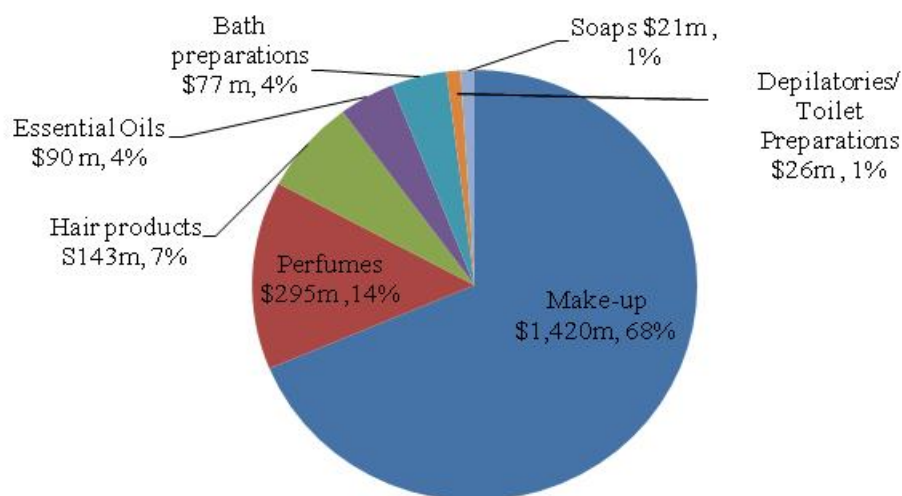


Hong Kong's imports of cosmetics and toiletries increased 28% in 2010. The three largest suppliers were China, Japan and USA. There is little demand for "Chinese"

brands; the majority of imports from China were branded products of foreign companies like Procter & Gamble, Wella, L'oreal, Unilever, Kanebo, Kao, and Colgate-Palmolive that have manufacturing plants in China.

Many foreign manufacturers of cosmetic products have established factories in China to avoid the high import tariffs and other restrictions on domestic retailing and wholesaling. With these foreign manufacturers supplying Hong Kong from factories in China, Hong Kong's imports from China will continue to increase.

Hong Kong's Imports of Cosmetic, Toiletry and Skincare Products by type of products, 2010



Best Prospects

- Complete line of facial whitening products especially those containing Vitamin C
- Facial skin anti-aging creams and lotions
- “Dermo-skincare products” for retail distribution
- Hair coloring products
- Fake eyelashes
- Nail colors, nail-care products, artificial nails, nail gels and nail-art
- Body treatments, slimming treatments, massage and bath products for use in spas and professional skincare salons
- Sun protection products
- Skincare, cosmetic and toiletry products made of organically-grown and naturally derived ingredients, also hypo-allergenic, with low concentrations of fragrance and preservatives
- Skincare products for men
- Products for treating acne

Key Suppliers

U.S. Market Position

Imported U.S. cosmetics and toiletries reached US\$263 million in 2010, accounting for 13% of Hong Kong's cosmetics and toiletries imports, Hong Kong's third largest supplier. The major items from the U.S. in 2010 consisted of make-up/beauty preparations for the skin (US\$162 million), perfumes and toilet waters (US\$56 million), and hair products (US\$14million.)

Cosmetics and toiletries imports from the U.S. increased 28% in 2010. There is continued strong demand for U.S. skincare products, color cosmetics and nail products in Hong Kong – these imports grew 30% in 2010. Imports of perfumes also increased 30% in 2010 to US\$56 million. U.S. cosmetics and toiletries generally enjoy a reputation for innovative products, competitive prices and stringent quality control on product safety. Procter & Gamble Hong Kong is one of the market leaders in the cosmetics, toiletries and skincare products sector. Its skincare brands, SKII and Olay, are advertised widely in the local media and enjoy brisk sales. Both SKII and Olay have a comprehensive range of whitening skincare products, which are popular in Hong Kong. Other leading U.S. skincare brands in Hong Kong are Estee Lauder, Neutrogena, Clinique, Nu Skin, H2O+, Ultima II, Artistry (Amway's), Usana, Arden, Mary Kay, and Mentholatum. In the nail color sector, the U.S. brand OPI dominates in the nail salons.

Local importers frequently cite the need for foreign suppliers to adapt the packaging and size to local tastes. American suppliers should also try to package higher-end potent skincare products in glass jars or bottles to enhance their product image. Young consumers, in particular, prefer small-sized cosmetic and toiletry items that are convenient to carry. A local personal care chain store prefers to stock Japanese products on their shelves as they are attractively packaged, especially important given limited shelf space in most Hong Kong stores. This chain store also commented that the Japanese suppliers were willing to adapt packaging to suit the display configurations of their stores.

The strength of U.S. cosmetics and toiletries lies in skincare and hair care products for professional use and mass-market hair products. Extensive brand-building activities and competitive pricing of U.S. mass-market hair product suppliers like Procter & Gamble, Johnson & Johnson, and Colgate-Palmolive contribute to the success of the U.S. as the market leader in this sector. Manufacturing of these products, however, is mostly in China or other Asian countries. For professional skincare products, Hong Kong consumers prefer U.S. products for their technological advances in product formulations and manufacturing. Consumers also trust the high safety standards that the USFDA imposes on manufacturers.

The weakening of the U.S. dollar against the Euro in the past two years also meant that Hong Kong importers buying products from Europe and Japan had to pay more in Euro and Yen for the same product than a year ago. Currently, the HK\$ is pegged at 7.8 to the US\$ and has fluctuated little since the inception of the linked rate policy in 1983. It is

therefore advantageous for Hong Kong importers and distributors to buy products from the U.S., as the U.S. dollar currency fluctuations will not affect the exchange value of the Hong Kong dollar and U.S. dollar.

Competitors

Japan was Hong Kong's second largest supplier of imported cosmetics and toiletries in 2010, with US\$276 million or 13% of Hong Kong's total imports of cosmetic and toiletries. About 82% or US\$227 million of Japan's exports of cosmetic and toiletries to Hong Kong were make-up and skincare products. Local consumers cite suitability of Japanese skincare products and color cosmetics to Asian skin type and skin color as the reason they prefer Japanese products to American and European products. In addition, Hong Kong consumers prefer Japanese packaging and consider Japanese products to be fun, modern and stylish. Local importers commented that Japanese manufacturers were willing to adapt their packaging to local tastes and to the tight space configurations of the local retail chain stores. Hong Kong's imports of Japanese cosmetics and toiletries will continue to remain strong. Popular Japanese brands in Hong Kong include Shiseido, Kose, Fancl, IPSA, Sofina, Kanebo, Shu Uemura, and Biore.

France supplied US\$236 million or 11% of Hong Kong's cosmetics and toiletries imports in 2010, including US\$178 million of make-up and skincare products and US\$52 million of perfumes and toilet waters. Imports of higher-end French brands of make-up and skincare products and perfumes will continue to remain strong with demand from mainland Chinese tourists and local consumers as the main driving forces for future growth. French perfumes, cosmetics and skincare products enjoy a long tradition of quality and will also remain popular with Hong Kong consumers. Popular French brands in Hong Kong include L'Occitane, Lancome, Clarins, Biotherm, Chanel, L'oreal, Christian Dior, Guerlain, Givenchy, Vichy, YSL, Avene, Darphin, Decleor, and Rene Guinot.

Prospective Buyers

Hong Kong's per capita GDP was around US\$36,538 in 2010. Hong Kong consumers between 30-49, comprising Hong Kong's largest age group (33% or 2.3 million) and having the highest disposable income, are the biggest buyers of imported cosmetics and toiletries.

The increasing number of men in Hong Kong using cosmetics and skincare products prompted Shiseido Hong Kong to start a Shiseido Men's Club in 2005 and Shiseido has since then been conducting grooming seminars for men. The trainer at the Hong Kong branch of the Chantecaille cosmetics firm that markets unisex makeup describes the market potential for men's makeup as huge and one that is "...growing rapidly."

Another large group of prospective buyers is Hong Kong's 36 million visitors. Mainland Chinese visitors, since 1997, have replaced Japanese visitors as the highest per capita spenders in Hong Kong. One cosmetic-specialty retailer reported about US\$900,000

worth of sales, the highest in one day, in one of its outlets that is frequented by mainland Chinese visitors.

In the B2B market for skincare products, there are about 70 dermatologists, 50 plastic surgeons, 60 private medical practitioners, and about 70 medi-spas (spas with medical practitioners) that offer aesthetic medical treatments such as chemical peels, botox injections, fillers, IPLs, and other skin laser treatments. These institutions also prescribe and retail skincare products. In addition, there are about 7,000 professional skincare salons in Hong Kong offering facial treatments and massage services. The larger salons sometimes include day spa facilities and offer nail treatment services.

Make-up and color cosmetics, skincare products, manicure and pedicure products

An increasing number of Hong Kong girls are using make-up at a younger age. Lip colors and nail colors are more popular than eye colors. Permanent eye make-up such as eyebrow and eyeliner tattooing is common among the older women. False eyelashes and semi-permanent eyelash extensions are extremely popular. In make-up products, Hong Kong consumers favor the pastel colors and the pale tones of Japanese facial foundation products that are formulated for Asian skin tones. Brand loyalty is low among Hong Kong consumers for make-up products.

In the B2C market for skincare products, American, Japanese, French and Swiss products are most popular. Japan is the largest supplier (US\$227 million) of imported skincare products, color cosmetics, and nail products, followed by France (US\$178 million,) China (US\$172 million,) and the U.S. (\$162 million.) A Hong Kong University study on public opinion found that Hong Kong women spent an average of US\$114 per year on facial skincare and the amount far outweighs their spending on care for different parts of the body.

In the skincare segment, SKII's whitening range is among the market leaders. Fancil, with its emphasis on whitening and preservative-free ingredients, has also enjoyed wide acceptance. L'Occitane, focused on anti-aging and moisturizing, was voted the top skincare brand in Euromonitor International's survey in Hong Kong in 2010. Manufacturers of mass-market skincare, like Beiersdorf AG (Nivea White), L'oreal, Olay and Neutrogena, have also entered the market for whitening products. These brands compete well with the premium brands on price and quality. The French brand Vichy is also a bestseller in Hong Kong's retail chain stores.

To compete in the skincare products market in Hong Kong, the manufacturer **must have** a whitening product or line (as opposed to "lightening" or "brightening") and an anti-aging line. An Asian Market Intelligence report indicated that one-third of women in Hong Kong use face whitening products. Kiehl's, a New York-based company, introduced a whitening skincare line in Asia; it was launched in Hong Kong before the U.S.

Hong Kong consumers, according to a brand manager of a leading French skincare product company, are more demanding than their western counterparts in care and treatment of facial skin – they expect products to deliver smoothness, luminosity, and a fair, flawless complexion visibly in a week. As such, distributors often translate anti-aging products into Chinese names suggesting almost-immediate results, such as the word ‘fairy’ or ‘goddess’.

Skincare products for men are growing in popularity, with an increasing number of men-only skincare salons opening. President and managing director of L’Oreal Hong Kong said, “we see emerging segments that probably didn’t exist a few years ago,” citing men’s and sun care markets, plus the dermo-cosmetics segment, among others as trends that will drive the market in the next few years.

In the dermo-skincare products for professional channels segment, the U.S. is the market leader and brands such as Skinceuticals, Skinmedica and NeoStrata are well known. There is, however, competition from the OEM and private label products of the medical practitioners and larger salons. In marketing products to the medical practitioners and salons, it is important to include quotes of the key opinion leaders (KOLs), before and after treatment photographs, and results of clinical trials; all of which must be translated into Chinese. Owing to increasing demand for dermo-skincare, several of Hong Kong’s leading skincare and personal care retail chains are planning to launch their own line. There are therefore immense opportunities for U.S. private label and contract manufacturers of dermo-skincare products to supply these retailers, who often operate retail stores not just in Hong Kong but throughout the region.

The suncare and sun tan market in Hong Kong is worth about US\$380,000 with a short season for sun tan products of 4-5 months. The major brands are Hawaiian Tropic, Banana Boat, Ocean Potion, Coppertone, Neutrogena and Mentholatum’s “SunPlay” (available only in the Asia Pacific region and Japan). The best seller is Mentholatum’s sun block of SPF130+.

Hair products

Hair coloring is common and widely accepted. The influx of younger, male and female consumers of hair colorants has fueled the growth of hair products in Hong Kong. Hair salons use Goldwell, L’oreal, Wella, and Schwarzkopf. Other major suppliers of professional hair-care products are Paul Mitchell, Sebastian, Tigi, Matrix, Nioxin, and Redken.

Bath preparations and soaps

Hong Kong consumers have shifted away from traditional products such as bar soaps and bath salts to liquid soaps and bath additives. As many Hong Kong households do not have bathtubs, sales of bath salts and soaks are primarily geared toward the spa market.

Perfumes and fragrances

Brand name is the most important factor affecting Hong Kong consumer purchasing decisions for perfumes. Brands associated with clothing designers such as Calvin Klein,

Kenzo, Issey Miyake, Marc Jacob, Donna Karan, and Giorgio Armani, tend to sell better than mass-market fragrance products. Local consumers prefer lighter and floral fragrances and perfumes. There is very little demand for body sprays.

Market Entry

As a channel for retailing cosmetics, department stores in Hong Kong tend to operate more like landlords than retailers. Most do not purchase their own stock but lease their floor space to local distributors of branded cosmetics to operate as concessionaires. They charge between 25 and 35% of the lessees' sales turnover as rent. Having a facial treatment room behind the concessionaire counter has proven to be effective in marketing products in the competitive environment of department store cosmetic floors.

Apart from the department stores, Watson's and Mannings are the two largest personal care chain stores. These two chains also retail cosmetics and skincare, expecting a minimum 35% profit margin. Suppliers to these chain stores must provide 3-6 months credit along with listing and promotional fees for introducing new products into their stores. The minimum listing fee is USD6,500 per SKU. In addition, Watson's has a global buying team and a regional buying team based in Hong Kong handling purchasing for 17 markets and 10 markets, respectively. A U.S. company may be contracted to supply more than one market from the headquarters in Hong Kong.

Other retail outlets for cosmetics and toiletries are the 1,500 independent dispensaries, supermarket chain stores (Park 'N Shop, Wellcome and Vanguard) and cosmetics specialty stores (Sa Sa, Bonjour, Sephora and Colourmix). Sa Sa and Bonjour tend to retail brand cosmetics from parallel import sources or grey market dealers (imported from unauthorized distributors in a third-country) and products from Japan, Taiwan, Korea, U.S. and the EU. The largest of these outlets is Sa Sa (with a 35% local market share and over 189 stores,) in Hong Kong, Macau, Singapore, Malaysia, Taiwan, Thailand and China. Sa Sa is now the largest cosmetic retail chain in Asia, retailing more than 400 brands and 15,000 SKUs, including a range of products made of naturally-derived ingredients. Sa Sa imports about 100 brands directly from overseas manufacturers and the rest are from local distributors and suppliers. Sa Sa and Bonjour are extremely popular with mainland Chinese tourists, who account for more than 40% of their sales.

Joyce Boutiques, a high-end specialty apparel store, also retails about 40 small and niche premium skincare, hair care, body care, and cosmeceutical brands (such as Eve Lom, NV Perricone) under the Joyce Beauty brand. 60% of Joyce Beauty brands are sold exclusively at their stores. As a sign of the growing potential of the cosmeceutical market, Harvey Nichols, which opened in September 2005, devoted part of its department store space to a well-being section called "Beyond Beauty" featuring "the best edited selection of beauty brands – global and niche, cult and everyday products," along with treatment rooms. Beyond Beauty offers skincare, hair care, spa products, fragrances and products for men, with brands such as Ultraceuticals (Australia,) Dr. Brandt, June Jacobs

Spa (US,) Intelligent Nutrients (US,) The Organic Pharmacy, Noesa (Germany,) Strivectin-SD (US,) DDF, Jeneuve (Switzerland,) Lab Series, Zirh, and Maxwell's Apothecary (for men).

B2C internet sales of cosmetics and skincare is gaining popularity in Hong Kong. Many local consumers not only use the internet for market research on new products, blogging and comparing prices, but also for purchasing products not yet available in Hong Kong and products whose online prices are cheaper than retail prices in Hong Kong. Local distributors are concerned that these parallel imports are hurting their sales and often demand that the American principals shut down the websites retailing parallel products that they distribute. American suppliers must take into consideration the online prices of parallel imports when fixing their export prices to the local distributor.

The best way to enter a market is through appointing a local agent or distributor. Many Hong Kong distributors have agreements with their overseas principals to include Macau and mainland China. The U.S. manufacturer must, however, provide launch support to the appointed agent or distributor in the form of sufficient literature in both English and Chinese, product samples and sachets for distribution to consumers, salons, doctors, etc. For retail channels, they must be willing to invest jointly with the appointed distributor in advertisements and other brand-building activities.

Internet forums, blogs and websites have become the latest platform for promotions of skincare products and cosmetics. A Nielsen survey on online advertising in Hong Kong in the first quarter of 2010 listed Global Beauty International Ltd, a company that operates a chain of beauty and slimming salons, as the top six online advertiser. A Euromonitor report in May 2009 cited www.beautyexchange.com.hk as the most popular local website for introductions of different brands, a forum for consumers to share product reviews, blogs of skincare experts, make-up artists and celebrities to share their beauty tips and to their product and brand recommendations. U.S. brands of cosmetics and skincare products are often discussed in the blogs, featured in the product reviews and some also advertise in this website. Other brand-building and promotional activities include make-up demonstrations by overseas make-up artists, makeovers at cosmetic counters, and product launch events featuring celebrity visits to the retail outlets.

As Hong Kong is one of the world's largest centers for Chinese language publications, it is essential for the appointed distributor to cultivate good relationships with the local media to ensure regular features on their products. Fashion/beauty/lifestyle magazines such as Marie Claire, Cosmopolitan, Elle, and Bazaar publish their Chinese editions in Hong Kong, some of which are distributed in mainland China, Southeast Asian countries, and in Taiwan. These write-ups are essential in building brand and product awareness in the Chinese-speaking markets of Asia. Editors of these publications expect product samples together with product literature and photographs when requesting publicity through their magazines.

Exhibiting at local trade fairs is another important way to enter the market. Exhibitors often locate agents and distributors at trade fairs. Cosmoprof Asia (held annually in Hong

Kong in November) is an international trade show featuring cosmetics, toiletries, perfumes, hair products, products for professional salon and spa use, along with raw materials for making and packaging cosmetics and toiletries. It is popular with U.S. manufacturers because buyers from around the world, local importers/distributors and beauty industry professionals visit this fair to find new partners, new products or new companies to represent. U.S. exhibitors have enjoyed tremendous success at this show, locating new customers or finding distributors not only in Asia but also from the rest of the world. The U.S. Department of Commerce has certified the show for the past few years. Further information on Cosmoprof Asia is available at <http://www.cosmoprof-asia.com>.

The preferred method of quoting for product order enquiries is “CIF landed,” and in US Dollars. Local importers pay their overseas suppliers through letters of credit, telegraphic transfers, and bank drafts in the preferred foreign currency of the exporter. Payment by telegraphic transfer is the most popular.

Hong Kong banks are renowned for their import payment services. The Hong Kong dollar (HK\$) is freely convertible and there are no regulations that hamper inward or outward remittance of capital or profits.

Market Issues & Obstacles

There are no tariffs on imported cosmetics, toiletries and skincare products. Hong Kong accepts U.S. product labeling and there is no local mandatory labeling or registration requirements on cosmetic products. As long as the cosmetic product does not claim to cure a medical condition on its labels, promotional materials or usage instructions, registration is not required. Skincare products containing hydroquinone do, however, require registration, which normally takes nine months to a year to complete. Inquiries on whether a skincare product requires registration should be directed to the Department of Health, Pharmaceuticals Registration and Import/Export Control Section. The email address for enquiries is pharmgeneral@dh.gov.hk, telephone number: (852) 2319-8451 Fax. Number: (852) 2803-4962. Information on registration of products is available at <http://www.psdh.gov.hk/eps/webpage.jsp>.

Trade Events

Cosmoprof Asia

November 9-12, 2011, Hong Kong Convention and Exhibition Center, Hong Kong

Contact: Sogecos s.p.a.

Via Filargo 38

20143 Milan, Italy

Miss Alessandra Allegri, Marketing and Sales, North America

Email: alessandra.allegri@cosmoprof.it

Website: www.cosmoprof-asia.com

Resources & Contacts

The Cosmetics and Perfumery Association of Hong Kong Ltd.

Room 308 Winning Commercial Building

46-48 Hillwood Road

Tsimshatsui, Kowloon

Hong Kong

Tel: (852) 2366-8801 Fax: (852) 2312-0348 Email: cosasso@netvigator.com

www.cosmetic-perfume.com

Contact: Mr. William Tsui, President

(The association has about 3,000 members from local distributors, retailers, and the Hong Kong offices of international companies. Its main function is to upgrade the image and service standards of the local industry and to present a united industry voice)

For More Information

The U.S. Commercial Service in Hong Kong can be contacted via e-mail at:

sweekeng.cheong@trade.gov; Phone: 852-2521-5233; Fax: 852-2845-9800; or visit their

website: www.export.gov/hongkong.

INDIA

Market Overview

Cosmetics is one of the fastest growing retail segments in India, and the booming Indian cosmetics market offers promising opportunities for U.S. brands. The Indian cosmetic market, which was traditionally a stronghold of a few major players like Lakme and Ponds, has seen a lot of foreign entrants to the market within the last two decades.

India allows entry of imported cosmetics without any restrictions. India's import of cosmetics and beauty products and intermediate raw materials such as essential oils is currently around \$400 million. France, Germany, U.K. and the United States have been the traditional suppliers with imports gradually increasing from China, Hong Kong, Malaysia, Thailand, and Israel in recent years.

Market Demand

Imported cosmetics have had a major impact on the Indian market. The emergence of a young urban elite population with increasing disposable income in cities, an increase in the number of working women, changing lifestyles, increased affordability of lifestyle-oriented and luxury products, mounting aspirations, penetration of satellite TV, increasing appetite for western goods, and greater product choice and availability are the main drivers of demand for imported cosmetics products. Indian consumers tend to look towards international brands as lifestyle enhancement products. Foreign products have enhanced growth of the Indian market by attracting aspirational consumers. Indians generally perceive foreign brands as being of superior quality.

The strong growth of organized retail in India is also creating a demand for more imported cosmetics products, even in second tier cities, where disposable incomes are larger and the demand has been subdued due to want of choices and options.

According to industry estimates the organized modern retail segment in India will grow by over three times during the next five years to reach \$80 billion from the current \$21.05 billion. According to a joint study conducted by KPMG and industry chamber, the Associated Chambers of Commerce and Industry of India (ASSOCHAM), approximately 315 hypermarkets are expected to come up in tier-I and tier-II cities across India by end 2011.

Market Data

According to industry sources, the total size of the Indian retail beauty and cosmetics market is currently estimated at \$1.5 billion, with fragrance comprising the largest component. Color cosmetics account for 14%, fragrances - 21%, hair care - 19%, skin

care - 17%, beauty services - 13%, herbal products - 9%, others - 7%. If the overall beauty and wellness market is considered, which includes beauty services, the market is estimated to be around \$2.68 billion. The cosmetics market in India is growing at 15-20% annually, twice as fast as that of the United States and European market. The growth rate in the cosmetics market reflects an increasing demand for beauty care products in India. Premium global brands are gaining sales as Indian consumers gain exposure to the global media and move from functional items to advanced and specialized cosmetic products. Even with a good growth rate, however, penetration of cosmetic and toiletries is very low in India. Current per capita expenditure on cosmetics is approximately \$11.00 as compared to \$40.00 in other Asian countries.

Market Issues and Regulatory Regime

Main areas of growth include: color cosmetics, fragrances (fragrance is the most popular purchase among imported products), specialized skin care and hair care products; professional salon items, and make-up cosmetic products. Some of the major cosmetics items imported by India are fragrances, non-transfer long-stay lipsticks, liquid lip color, eye make-up, specialized skincare products, particularly anti ageing/anti wrinkle, anti blemish and skin whitening (fairness) creams, professional hair-care and styling products, and preparations for shaving creams and skin care products for men. Sun care products such as sun blocks and sun protection products are also popular.

More and more shelves in shops and boutiques in India are stocked with cosmetics from around the world. Since the opening up of the Indian economy in the early nineties, many international brands like Avon, Burberrys, Calvin Klein, Cartier, Christian Dior, Estee Lauder, Elizabeth Arden, Lancome, Chambor, Coty, L'Oreal, Oriflame, Revlon, L'Oreal, Yardley, Wella, Schwarzkopf, Escada, Nina Ricci, Rochas, Yves St. Laurent, Tommy Hilfiger, Max factor, Max Mara, and Shiseido have entered the Indian market.

With the beauty service industry growing rapidly in India, the spa market in India is also attracting a lot of attention from international brands. The spa industry in India, though still small currently at around \$22 million, has grown rapidly over the last few years, not only in the number of spas, but also in the diversity of spas and products available. The spa and body treatment segment is estimated to be approximately \$772 million over the next five years. Local brands currently account for approximately 75 percent of the spa market in India and the balance share is with international spa firms who have mostly partnered with leading hotel brands. With the growth of day spas in most major cities in India, spas are increasingly becoming a part of the daily routine of not only affluent sections of society but also the middle class, and no longer considered a luxury reserved just for holidays. The concept of med-spas, though still very much in its infancy, is also increasingly gaining acceptance in major Indian cities. Industry sources expect the spa segment in India to grow at over 60 percent annually over the next decade.

The Indian beauty and cosmetics market is not just the domain of women any longer. Indian men too are increasingly taking to the use of more and more body sprays,

perfumes and other cosmetics and toiletries. With rising demand from men, the Indian market is getting enlarged and many players are coming out with cosmetic products, especially skin care products, for men. The market size of men's personal care segment is estimated at over \$200 million, with Gillette having the largest market share.

As mentioned earlier, India has a lot more organized dynamic retail channels like department stores, supermarkets, and shopping malls for cosmetic brands to showcase their products. Large format retailers, department stores and supermarkets are also restructuring to attract more cosmetics brands and allocating more floor space for cosmetic brands. Cosmetics brands also continue to innovate on selling methods. An increasing number of cosmetics companies are dealing with consumers directly through exclusive counters in department stores and malls featuring their own beauty consultants. Exclusive one-stop shops for only imported cosmetic brands are coming up in major metros. Some Indian companies have set up exclusive franchised beauty salons across the country to promote their products.

Market Entry

Key factors to successfully entering the beauty and cosmetics market in India include careful research and analysis of existing sales channels and consumer preferences, which will allow U.S. companies to determine the pricing structure, the product mix and brand positioning; finding the right partners who have knowledge of the local market and procedural issues; good planning; maintain consistent follow-up and supply; aggressive due diligence to ensure that partners or distributors are credible and reliable; and perhaps more importantly, patience and commitment to the market. The U.S. Commercial Service (USCS) in India offers customized solutions to help your business enter and succeed in the Indian market. To identify potential agents or distributors in India, U.S. companies can take advantage of the [Gold Key Service](#) and the [International Partner Search](#) program offered by the U.S. Commercial Service through its seven offices in India. To conduct a background check on potential partners, U.S. companies can also take advantage of the Commercial Service's [International Company Profile](#) service.

Developing innovative pricing strategies is also very important, as India is a very price sensitive market. Indian consumers want the best but many are not always willing to pay for it. Understanding the attitudes, preferences and aspirations of the different segments of India's consuming class is very crucial to achieving success in the Indian market. For example, given the price-sensitivity of the Indian consumers, many cosmetic and toiletries companies launched their products in smaller pack sizes to make them more affordable. Hindustan Lever of the Unilever group and Revlon were the first to introduce small pack sizes.

Revlon was the first to introduce small-range of 8 ml nail polishes and lipsticks, and was soon followed in its strategy by many Indian companies as well. Small pack sizes have proved to be very popular in the Indian market as it offers a consumer lower purchase cost that they can afford and at the same time the opportunity to try new products.

As India is a large country, it may also require multiple marketing and sales efforts. For this purpose, it may be necessary to have more than one distributor or importer covering different regions of the country. This division also allows for better control over the master importers and distributors.

Understanding the Indian skin types and color is also important. To introduce U.S. beauty and cosmetics companies in the booming Indian retail market, the U.S. Commercial Service is organizing a [Beauty and Cosmetics Trade Mission to India](#) (New Delhi, Mumbai and Bangalore), scheduled for November 15-19, 2010. This objective of the trade mission is to provide an in-depth first-hand experience for U.S. companies to understand the Indian market, the regulations and to assist them in identifying prospective representatives, distributors, retailers and end-users in the vibrant Indian market. Trade mission participants will have customized meeting schedules to meet with potential partners, professional end-users, major retailers and key government and regulatory officials. For more information and to contact us with your interests, please visit: <http://www.buyusa.gov/india/en/cosmeticstm.html>

Import tariffs: Indian import tariffs on cosmetics have been significantly reduced over the last several years. The total customs duty for cosmetics and beauty products classified under HS Code 3303 to 3307 is currently 26.84 percent, down from 31.7 percent last year and over 56 percent in 2005-06. The components of this total duty includes a basic custom duty of 10 per cent [applied on the cost insurance freight (CIF) value of goods]; an additional duty of customs popularly called countervailing duty or CVD of 10.30 per cent; and a special CVD of four percent. The special CVD of 4 percent is intended to represent the incidence of sales tax, value added tax and similar levies applicable on domestic goods. The countervailing duty is equivalent to the local excise tax on similar articles manufactured within the country.

Labeling requirements: In January, 2001, the Indian government made it mandatory for all pre-packaged goods (intended for direct retail sale) imported into India to bear the following labeling declarations: i) name and address of the importer; ii) generic or common name of the commodity packed; iii) net quantity in terms of standard unit of weights and measures; iv) month and year of packing in which the commodity is manufactured or packed or imported; and v) maximum retail sales price (MRP) at which the commodity in packaged form may be sold to the end consumer. The MRP includes all taxes, freight transport charges, commission payable to dealers, and all charges towards advertising, delivery, packing, forwarding and the like. Compliance of the above-stated requirements has to be ensured before the import consignments are cleared by customs in India. The import of pre-packaged commodities such as raw materials, bulk imports, etc., that need to undergo further processing before they are sold to end consumers are not included under this labeling requirement.

Specifically for cosmetics, a product shall carry on both the inner and outer labels:

a). Name of the cosmetic. b). Name of the manufacturer and complete address of the premises of the manufacturer where the cosmetic has been manufactured (Note: If the

cosmetic is contained in a very small size container, where the address of the manufacturer cannot be given, the name of manufacturer and his principle place of manufacture along with zip code has to be indicated). c). The names of ingredients in the order of percentage of content.

On the outer label: a). A declaration of the net contents expressed in terms of weight for solids/ semi solids, fluid measure for liquids. (Note: In the case of package of perfume, toilet water or the like, the net content which does not exceed 60 ml or any package of solid or semi solid cosmetic where the net content doesn't exceed 30 gms, the statement of net content need not appear). b). The names of ingredients in the order of percentage of content.

On the inner label: a). Where a hazard exists, adequate directions for safe use, warning, caution or special direction required to be observed by the consumer, statement of the names and quantities of the ingredients that are hazardous or poisonous. b). The names of ingredients in the order of percentage of content.

Batch number preceded by the letter "B" (**Note:** Any cosmetics containing less than 10 gms in solid form or semi solid form and 25 ml or less in the case of liquid cosmetics are exempted). In the case of soaps instead of batch number, the month and year of manufacture of the soap shall be indicated on the label.

Manufacturing license number preceded by the letter "M." (**Note:** Where a package of a cosmetic has only one label such label shall contain all the information required to be shown on both the inner and outer labels).

Import procedure and documents required: The import procedure for importing cosmetics into India consists of the following standard steps:

1. The U.S. exporter provides the proforma invoice stating the offer price, which is inclusive of the insurance and freight cost. On reaching an agreement on the mode of payment (which can be wire transfer of funds or a letter of credit), the Indian importer places the order for the product.
2. Exporter sends the consignment by sea or uses airfreight. At the port of entry in India, the Indian importer or its customs clearing agent is responsible to clear the goods after the payment of total import duties, which is currently 26.84 percent for cosmetics.
3. Before any cosmetics are imported, a declaration signed by or on behalf of the manufacturer or on behalf of the importer that the cosmetics comply with Chapter III of the Indian Drugs and Cosmetics Act and rules shall be supplied to the collector of customs at the port of entry. The contents of chapter III of this Act relate to general provisions on spurious cosmetics, misbranded cosmetics, prohibition of defective quality cosmetics and incorrectly labeled cosmetics, and banned cosmetics.

4. Besides the "bill on entry," which is to be submitted by the Indian importer in four copies, the following standard documents are required:

- Signed invoice (original + 2 copies) or statement showing the name and quantities of each article of cosmetic included in the consignment and the name and address of the manufacturer along with itemized market value of all the contents
- Packing list
- Contract Copy (Purchase order and payment terms)
- Bill of Lading if shipped by sea or Airway Bill if sent by air
- Insurance document
- Product catalogs
- If products are considered as hazardous products (for example flammable products such as oils, sprays and other liquid products), importer will have to furnish a special import license.

Banned items: India prohibits the manufacture and import of any cosmetic products containing hexachlorophene, lead, arsenic or mercury compounds. In India, the permitted synthetic organic colors and natural organic colors used in the cosmetics shall not contain more than:

- 2 parts per million of arsenic calculated as arsenic trioxide.
- 20 parts per million of lead calculated as lead.
- 100 parts per million of heavy metals other than lead calculated as the total of the respective metals

India allows import of cosmetics into the country only through specified ports of entry, which includes: Chennai, Kolkata, Mumbai, and Cochin sea ports; and Delhi, Mumbai, Chennai, Kolkata, and Ahmedabad airports.

The officer appointed by the Indian government at the port of entry is empowered to take samples for analysis if required.

Market Issues & Obstacles

Import of cosmetics into India is currently not regulated and registration of cosmetics in India is not mandatory. Although India permits the importation of cosmetics and toiletries without any restrictions and has been reducing import tariffs every year, a concern for the cosmetic sector is the proposed amendment to the Indian Drugs and Cosmetics Act of 1940 to introduce a new compulsory registration system for imported cosmetics products. This requirement, if implemented, will represent for foreign companies important costs in terms of time and money, burdensome administrative requirements, and cause unnecessary delays to market their products. This proposal was primarily a result of dumping of beauty and personal care products worth over \$133.33 million annually from one or two countries, which were found to contain hazardous materials. Lack of regulations on imported cosmetics so far contributed to the proliferation of sub-standard and spurious cosmetics in the Indian market. The proposed

regulation is reportedly to check that and also to harmonize import requirements with those for domestic products. This compulsory registration requirement for imported cosmetics has not been implemented yet. The Indian government has only published a draft notification, but it is yet to become a law.

The term "cosmeceuticals" is not recognized in India. If a cosmeceutical product cannot be sold as an over-the-counter item and is classified as a pharmaceutical item and not cosmetics, the product would require approval from the office of the Drug Controller of India in the Ministry of Health. The import of such products will only be allowed if the generic product category is registered with the Drug Controller's Office, which administers the Indian Drugs and Cosmetics Act of 1940 (this Act governs the manufacture, sale, import, export and clinical research of drugs and cosmetics in India). Enquiries on product registration should be addressed to: Dr. Surinder Singh, Drugs Controller General of India, FDA Bhawan Kotla Road, New Delhi –110002; Phone: 91-11-2323 6965 (D); Fax: 91-11-2323 6973; Email: dcg@nb.nic.in

Trade Events

India Cosmetics Webinar: Contact Manjushree.Phookan@mail.doc.gov for more details.
Health & Beauty Expo, July 29 – August 2, 2010, Bangalore
Beautyworld India 2010, October 4-6, 2010, Mumbai
Beauty & Cosmetics Trade Mission to India, November 15-19, 2001

Resources & Contacts

[Drug Controller of India, Ministry of Health, Government of India](#)
[The Drug and Cosmetics Act, 1940](#)
[Reserve Bank of India](#)
[Ministry of Finance, Government of India](#)

For More Information

The U.S. Commercial Service in Bangalore, India can be contacted via e-mail at: Manjushree.Phookan@trade.gov ; Phone: 91-80-2220 6404; Fax: 91-80-2220 6405; or visit their website: www.export.gov/india

INDONESIA

Summary

Indonesian imports of cosmetics reached an estimated of \$250 million in 2008, a 34 percent increase over the 2007 figure of \$187 million. U.S. products accounted for over \$10 million of all imported cosmetic products. The sales prospects remain good with steady growth projected over the next two years. While local products account for over 80 percent of the market share, imported cosmetics with international brands are widely available in the Indonesian market. Despite rapid growth in the industry and sharp competition among brands, Indonesia is still a good potential market for imported cosmetics. The market is expected to grow at an average of 10-15 percent annually.

There are no restrictions on importing cosmetic products to Indonesia. However, imported cosmetics must be registered at the National Agency of Drug and Food Control (Indonesian acronym BPOM). Registration of imported cosmetics can be done only by local agents or distributors. Import duties for cosmetic products are 10 percent. In addition, a value-added tax (VAT) of 10 percent is imposed on all imported cosmetic products. BPOM has taken tough measures on registration of imported cosmetics. The current registration process is slow, with indefinite time for results. This might impact the number of newly imported cosmetic products in the long run, as distributors may focus more on existing products in the Indonesian market.

Market Demand

The demand for cosmetics and toiletries has increased substantially over the past years. Business sources forecast a positive outlook for the cosmetics market in coming years. For the time being, due to concerns about the economy, the high dollar exchange rate, and the upcoming appointment of the new cabinet in October, the market is predicted to remain stagnant. However, growth of 10-15 percent is projected for 2010 and 2011.

Overall demand of cosmetics and toiletries in Indonesia will continue to increase substantially, despite the extremely tight competition. Domestic manufacturers are successful in the middle and low-end market segment, and supply most of the local demand. There is good acceptance of imported cosmetics in Indonesia which represents - around 16 percent of the total market. Most popular cosmetics brands have entered the Indonesian market and are experiencing growing sales.

In the cosmetics sector, skin care products accounted for more than 32 percent of total imports. The U.S. was the third largest supplier in this category. Business sources predict that the market size and sales for skin care products will continue to increase due to the growing awareness of the value of skin-care treatment for both males and females. An increasing number of men, as well as working women, are more concerned about their skin care, driving the demand for men-oriented products, as well as anti-aging and skin whitening products. The market for both local and imported anti-aging and whitening products still has potential to grow.

Men's cosmetics and toiletries are becoming popular and the potential is large. Men's personal grooming products have shown an increase in recent years, a sign that this segment of the Indonesia cosmetics market is growing. Most men's cosmetics are sold in department stores and through multi-level marketing companies.

The growth potential is also affected by increased demands from the service industry such as beauty parlors and spas. Spas and salons offering treatment programs have increased in number. More people seek professional help for facial and skin treatment, stimulating the growth in sales for skin care products. More new upscale beauty salons and skin care clinics were opened in shopping centers. The number of professional hair care salons selling specialty products has also increased.

In addition to generic spa and beauty treatments, spa businesses and related product lines have increased their offerings to consumers. Wedding spa or pre-wedding body and beauty treatment has become a trend in Indonesia, contributing to the growth of the skin care market. Presently, local products dominate the market for skin and body care. The Indonesian spa industry is widely recognized particularly in the hotel and resort areas. There are increasing opportunities for spa aromatherapy supplies, since local producers lack the research capabilities to develop quality products.

Market Data

Industry sources estimate that the total market for cosmetic products in Indonesia increased by 25 percent from \$1.2 billion in 2007 to \$1.5 billion in 2008. The cosmetics import market grew by 34 percent from 2007 to 2008. Estimated total imports of cosmetics were valued at \$187 million in 2007, and increased to over \$250 million in 2008. This increase was also driven by a change in the import tariffs from 0-5 percent resulting from AFTA (ASEAN Free Trade Agreement). This change has encouraged multinational companies, like Procter & Gamble and Johnson & Johnson, to restructure and relocate to find more economical ways to achieve efficient sourcing and supply systems. With an average growth between 10-15 percent, the industry is expanding in line with the strengthening economy.

Due to the effect of the economical downturn and increases in food prices, business sources predict consumers will cut back on secondary expenses. There will be a decline in the purchasing power of the middle and lower income segments of the population and this group will shift their consumption to lower-priced products. The high income segment will not be affected by the change in the economy, and will continue to drive the demand up for imported cosmetic products.

Best Sales Prospects:

1. Skin Care: anti-aging and whitening products; products that protect, nourish and rejuvenate aging skin

2. Hair care: hair treatment products to maintain healthy hair and to prevent hairloss
Massage: skin treatment products used in spas

Best Sales Prospects:

1. Skin Care Products: Anti-aging and whitening products; products that protect, nourish and rejuvenate aging skin
2. Hair care products: hair treatment products to maintain healthy hair and to prevent hairloss
3. Massage Products used in spas for skin treatment

Key Suppliers

Indonesia has more than 350 manufacturers producing numerous cosmetic products. These producers are mostly cottage industry level producing affordable cosmetics, soaps, lotions and skin care products. In contrast, the largest producers are major skin care companies operating licensed manufacturing facilities in Indonesia including Revlon (produced by PT Rudy Soetadi & Co. Ltd.), Ponds, Vaseline and Dove (produced by PT Unilever), and L'Oreal (produced by PT Yasulor). Among the leading national cosmetic companies are PT Martina Berto, PT Mustika Ratu, PT Vitapharm, and PT Ristra Indolab. They produce traditional herbal and non-traditional skin care treatments.

Third country exporters of cosmetic products competing with the U.S. include China (6.3%), U.K. (4.0%), France (3.4%), Germany (2.5%), Italy (2.3%) and Japan (1.9%). Some of the product brands found in the market are Guerlain, L'Occitane, La Prairie, ROC, Clarins, L'oreal, Yves Saint Laurent, Givenchy, Nivea, Oriflame, Seba Med, Shiseido, Kanebo, SKII, and Kose. In the lower market segment, Chinese and Korean products pose strong competition, especially with domestic producers. Chinese products are perceived as affordable, with high quality traditional ingredients. Thailand was the largest exporter of skin care products and shampoos to Indonesia, accounting for over 51% of the total imports in 2008.

U.S. imports accounted for 4.2 percent of the total imports. This official number likely understates the percentage of U.S. imports because many U.S. products were shipped through Singapore. U.S. products are also manufactured in other ASEAN countries and exported to Indonesia. Consumers' acceptance of U.S. products is fairly high and they are well positioned in the Indonesian market. U.S. products include: Procter & Gamble, Clinique, Obagi, Estee Lauder, MAC, Elizabeth Arden, Revlon, Neutrogena, Cover girl, Olay, and H2O.

Some of the products used in beauty parlors are Murad, Sothys, Dr. Cos, ROC, DuraSkin, and Miracle White.

Prospective Buyers

Given its population of 220 million, Indonesia is a potential market for cosmetic products. Of this population, 12-15 percent are estimated to be in the middle-high income range. These are people who can afford to buy imported products. These high-end consumers are concentrated primarily in urban areas. For this group, quality, trends and brand names play an important role in their personal choices.

Distributors notice that products with labels printed “Made in USA” appeal more to consumers. Middle-aged consumers exhibit strong preferences and they tend to become loyal to one brand. Reputation and name recognition continue to drive their cosmetic purchases. Young consumers are more inclined to shop around, use different products, and select from different brands. High-end consumers are willing to pay a higher price for well-known branded products, which convey higher social status. The middle and lower level income groups are very price conscious and susceptible to economic swings.

Indonesians nowadays are increasingly image and fashion conscious. Daily make-up has become a basic need among working women. While women continue to be the dominant consumers of cosmetic products, sales to the male market segment are steadily increasing. The younger generation has also become regular users of cosmetics and skin care products.

Consumer spending increases during holiday seasons, such as Lebaran or Idul Fitri (Muslim celebration), Chinese New Year and Christmas. Stores take advantage of these times of the year as demand increases during these festive seasons.

Market Entry

In Indonesia, cosmetics are sold through specialty stores, drug stores, department stores, supermarkets, multi-level marketing (MLM), skin care clinics, and beauty salons. Amway, Nu Skin, Tahitian Noni, Sunrider, Forever Living, Herbalife and Oriflame are among the MLM companies. U.S. exporters wanting to sell their cosmetics products in this market should appoint a local distributor that will conduct the registration process, and introduce the products to the market.

Indonesian consumers are attracted to branded products. They also tend to be image conscious. Brand loyalty is most likely gained by quality with good packaging, distribution, promotion, and pricing rather than cheap products.

Indonesian women are market followers. They try to follow the fashion trends that are popular in other Asian countries, such as, Singapore and Hong Kong. According to industry sources, products that are popular in Singapore would have good prospects in Indonesia.

Since the cosmetics market in Indonesia is highly competitive, creation of a strong brand through promotion is recommended for substantial entry into the market. Successful products tend to contain unique formulas or ingredients not available in Indonesia. In addition, a strong marketing campaign and advertising play a major role in promoting awareness of products and brands and in expanding market reach. Business sources indicate that cosmetics companies use print media as their primary advertising channels to promote imported cosmetics.

U.S. manufacturers seeking to enter the Indonesian market should consider the following points:

- Work closely with the local agent or distributor giving full support to product launch and marketing.
- Support the local agent or distributor with the necessary papers required for registration at the National Agency of Drug and Food Control (Indonesian acronym BPOM).
- Be responsive and flexible in complying with consumer needs/demands.

Market Issues & Obstacles

The National Agency of Drug and Food Control (Indonesian acronym BPOM), regulates and controls the registration, distribution and quality of cosmetics. Imports of cosmetics must comply with Indonesian law. Sales of cosmetics products are regulated through the Directives to Register Cosmetics stated in the “Stipulation on Registration Implementation” and through the Decision of BPOM No. HK 00.05.4.1745, dated May 5, 2003.

Registration of imported cosmetics can be done only by local distributors that have authorization from overseas manufacturers.

There are no formal import barriers on cosmetics. The import duty for cosmetics is 10 percent plus 10 percent VAT. Rates are 0-5 percent for products originating in ASEAN FTA members.

Manufacturers or importers must register all cosmetics whether locally produced or imported with BPOM. Likewise, the manufacturer or importer must fulfill the criteria for registered cosmetics regarding the safety, quality, packaging, and labeling of the products. Labeling must contain honest and complete information that is not misleading and must not contain unwarranted claims. Products should be of good quality, use proper manufacturing methods, and use only safe materials outlined by the BPOM. To register, cosmetic importers must submit an application form to the BPOM which includes the following technical data specified in forms A through D:

Form A: - The formula (qualitative and quantitative), functions and references of each ingredient used;

- Manufacturing procedures

Form B: - Raw material specifications;

- Container and lid specifications

Form C: - Specifications and finish product inspection procedures;

- Certificate of Analysis of the finished goods
- Stability test of the finished goods

Form D: - Information on the benefit, usage, and warning (if any), as stated on the label

- Sample of production code and its explanation
- Marking on label, and/or brochure, or others attached to the cosmetics
- Samples of products (2 items)

The foreign company must also provide the following documents:

- **Letter of Authorization:** from the manufacturer authorizing the agent or distributor to register product(s) and to distribute product(s) in Indonesia. This letter must be endorsed by the Indonesian Embassy.
- **Certificate of Free Sale:** stating that the products are produced and marketed in the United States in general conformity with U.S. requirements. The certificate must be legalized by the Indonesia Embassy.
- **GMP certificate:** issued by the manufacturer, and must be endorsed by the Indonesian Embassy.

On June 11, 2009, the National Agency of Drug and Food Control (Indonesian acronym BPOM) recalled 70 items of counterfeit, fake and unregistered imported and locally produced cosmetics. This action came after BPOM conducted tests and found that the cosmetics contained dangerous chemical ingredients. BPOM continues to conduct regular samplings and post-market monitoring on all cosmetics in the market, including high-end and popular cosmetics. The organization has collaborated with customs to prevent illegal and harmful cosmetics from entering the country.

In addition, BPOM has taken tough measures on registration of newly imported cosmetics. Although the cosmetics law of 2003 is still in effect, registration is now more complicated, requiring additional documents and prolonging processing time. This registration process frustrates the distributors and may affect new cosmetics imports as distributors concentrate on existing products and withhold new products.

Trade Events

Name: Cosmobeaute Indonesia

Date: October 22-24, 2009

Location: Jakarta, Indonesia
Contact: PT Prakarsa Sinergi Utama
Email: info@ptprakarsa.com
Website: www.cosmobeauteindonesia.com

Resources & Key Contacts

Further information on BPOM registration procedures can be obtained from:

Dr. Niniek Soedijani
Director of Traditional Medicines, Food Supplement and Cosmetic
Badan Pengawasan Obat dan Makanan – BPOM
National Agency of Drug and Food Control
Jalan Percetakan Negara No. 23
Jakarta 10560, Indonesia
Tel. (62-21) 424-4819
Fax. (62-21) 424-5203

Association:

Ir. Tonny Pranatadjaja, General Chairman
Indonesian Cosmetics Association
Wisma Tugu II, 8th Floor
Jl. HR Rasuna Said Kav. C 7-9
Jakarta 12940, Indonesia
Tel. (62-21) 520-9002
Fax. (62-21) 520-8623
Email: tpranatadjaja@protocol-one.com

For More Information

The U.S. Commercial Service in Jakarta, Indonesia can be contacted via e-mail at: Sharon.Chandra@trade.gov; Phone: (62-21) 526-2850; Fax: (62-21) 526-2855; or visit their website: www.export.gov/indonesia/en

JAPAN

Summary

Japan is the world's second largest market for cosmetics and personal care products after the U.S. Japan has a long tradition of using cosmetics, and Japanese cosmetics manufacturers are highly competitive and sophisticated. The oldest Japanese cosmetics manufacturer, a major player in the industry, dates back to 1615. Japanese consumers today are known to be highly conscious of quality, product value, and the brands they buy and use.

The U.S. is the second largest exporter of cosmetics to Japan. U.S. manufacturers of cosmetics should keep an eye on the Japanese market as it offers competitive U.S. brands and products rewarding opportunities. Japan's beauty and personal care product market is over 40% of the aggregate Asia Pacific market which is roughly one third of the global market. From the viewpoint of not only the size but also the trend and market demand, Japan can be regarded as a gateway to the Asian markets. Success in the Japan market can raise product/brand profile and visibility in other international markets, particularly in Asia.

Market Demand

Japanese consumers are very sophisticated and particular about the quality and safety of the products they buy and use. Furthermore, with the recent trend of frugality resulting from the recession and subsequent job insecurity, consumers are becoming more selective and value conscious. . Products must be nicely designed, packaged and promoted. Consumer needs and tastes may change with seasonal trends and fashion changes, and they may be eager to try something new and different from time to time as long as those products and value propositions are appealing.

As described in more detail in the Best Prospects section, key products are anti-aging, skin lightening, and skin moisturizing cosmetics and toiletries. High performance and quick-acting skincare products, including those for specific parts of the body or with multiple and complex functional ingredients (such as "doctor's cosmetics,") are also popular items. Furthermore, organic or natural products, luxury products, and unique or branded products are in demand in the marketplace. Men's skincare and personal care products are drawing an increasing amount of attention in the Japanese marketplace.

The disaster caused by the Great East Japan Earthquake on March 11th, 2011 and the radiation concerns over the crippled Fukushima Daiichi Nuclear Power Plant shocked the Japanese market which is undoubtedly a negative news to the market in depressing consumer spending. According to cosmetics industry sources, they experienced a 15-20 percent drop in sales on a year-over-year basis, right after the disaster for a couple of months. However, cosmetics in general are considered less susceptible to economic fluctuations so that businesses are slowly but surely coming back to normality.

Market Data

The overall Japanese cosmetics market showed signs of recovery in 2010 from the recession over the period of 2008-2009 with a healthy increase of 2.6 to 1,471.6 billion yen (\$16.7 billion). Imports increased to 12.1 percent of the domestic market in 2010, compared to 10.7 percent a year earlier. France and the United States remained the top suppliers despite a decline in market share; cosmetics imports from these two countries decreased to 45.0 percent of total cosmetics imports in 2010 from 51.1 percent in 2009. China ranked a distant third (7.7 percent in 2010 and 8.1 percent in 2009) after the United States (17.3 percent in 2010 and 20.1 percent in 2009). Of the imports by category, skincare products increased 3.1 percent to 65.5 billion (\$746.6 million), which compares to a drop of 17.2 percent (63.5 billion yen, or \$678.6 million) a year earlier. Imports from the U.S., at 17.7 billion yen (\$202.2 million) in 2010 were up 2.5 percent from 17.3 billion yen (\$184.8 million) from the previous year and remained second only to France (26.1 billion yen, \$298.1 million). Fragrances which decreased sharply in 2009 by 22.1 percent to 20.7 billion yen (\$221.8 million) showed a hefty recovery with an increase of 2.2 percent to 21.2 billion (\$242.0 million). Among the top three exporting countries, France (12.5 billion yen or \$143.0 million, down 5.7 percent) recorded a positive increase. Italy was down 5.4 percent to 4.4 billion yen or \$50.3 million whereas the U.S. was up 5.2 percent to 2.0 billion (\$22.8 million). Make-up product imports continued to decline in 2010 with 21.5 billion yen (\$245.9 million), down 2.7 percent. France remained as the leading supplier but experienced a decline of 6.7 percent to 8.1 billion (\$92.6 million). The U.S. registered a hefty recovery of 6.5 percent to 3.9 billion yen (\$44.6 million). China was a close third and also showed a gain of 7.7 percent to 3.25 billion yen (\$39.8 million). Hair care products, such as shampoos and rinses, registered a remarkable growth in 2010, up 75.4 percent to 52.8 billion yen (\$601.5 million). The U.S. maintained its position as the top supplier in this category at 3.3 billion yen (\$38.5 million), up 21.6%. China, which has been rapidly catching up with the U.S. in this category, was up 28.3 percent to 2.2 billion yen (\$25.2 million) and surpassed France. France was down 6.1 percent to 2.0 billion yen (\$22.7 million). These changes can be attributed to successful new brand launches and shifting manufacturing locations to overseas. In fact, the production of hair care products is spreading on a global basis.

Cosmetics Market in Japan (2007-2010)

(Calendar Year Base, Millions of Yen, Millions of Dollars)

	2007	+/- (%)	2008	+/- (%)	2009	+/- (%)	2010	+/- (%)
Shipment	1,510,696	0.73	1,507,105	-0.24	1,390,243	-7.75	1,419,957	2.14
(US\$)	12,829	-0.51	14,577	13.63	14,840	1.81	16,176	9.00
Import	178,494	7.89	171,575	-3.88	153,554	-10.50	179,121	16.65
(US\$)	1,516	6.56	1,659	9.48	1,639	-1.23	2,041	24.49
Export	102,177	9.43	110,916	8.55	110,698	-0.20	127,468	15.15
(US\$)	868	8.08	1,073	23.64	1,182	10.15	1,452	22.89
Total	1,587,013	0.97	1,567,764	-1.21	1,433,099	-8.59	1,471,610	2.69
(US\$)	13,477	-0.27	15,164	12.52	15,164	12.52	15,246	0.55
Exchange Rate	117.76		103.39		103.39		93.68	

Source: Japan Cosmetics Industry Association, Cosmetics Importers Association of Japan,

Trade Statistics of Japan

Note: Exchange rates are annual average rates January thru December

*"Cosmetics Market" includes skincare (HS3304.91-99), hair care (HS3305.10-90), makeup preparations (HS3304.10-91), fragrance (HS3303.00), and toiletry goods such as pre-and after-shaving, bath salts, etc (HS3307.10-90).

Trade statistics for the first three months (see below) indicate that the cosmetics industry was short roughly 10 percent on the annualized basis from the 2010 business level. Industry sources say they experienced a 15-20 percent drop in sales right after the disaster in March 2011 but now things are gradually returning to normality. Cosmetics in general are considered less susceptible to economic fluctuations. Although it is unwarranted to expect a quick restoration of the economy, with the improvement of the consumer confidence with the progress of restoration processes of the economy, it is widely expected in the industry that reasonable recovery and growth of the business will be underway from the second half of this year and on.

Best Prospects

Industry sources say that Japanese consumer interest in beauty and health continues to be high. Japanese consumers are traditionally more interested in skincare than make-up and fragrances. The skincare segment accounts for the largest share of the market, a striking contrast to western countries where make-up preparations have the largest share. Japanese cosmetics consumers are known to be highly brand and quality conscious.

Best prospect cosmetic and personal care products are as follows:

- Skincare cosmetics with specific appeals such as anti-aging, skin whitening (lightening), and skin moisturizing. In addition, high performance and quick-acting spot skincare products, such as those that remove clogged sebum and other waste matter from facial pores, are getting more popular in Japan. Many skincare products with such functions, as well as those with multi/complex functional ingredients (such as Coenzyme Q10 and Platinum Nanocolloid), are being brought to the market, and many manufacturers are working to develop unique ingredients following such successful and attention-getting examples. Natural and/or organic products for sensitive skin and troubled skin are also becoming more popular in the marketplace.
- Men's skincare and personal care products, such as cleansing foam, toning lotion, moisturizing emulsion, skin revitalizer, anti-shine refresher, deep cleansing scrub, hydrating lotion, eye soother, tanning lotion, fragrance, and deodorant products. Japanese men, ranging from teenagers to the Japanese baby boomer generation in their fifties, acknowledge the need to look and feel better and their interest in cosmetics and toiletries is growing.
- Fragrances. These are believed to relieve some of the feelings of stress. In general, Japanese consumers are fond of light-feel fragrances such as those with floral notes. The Japanese market is said to be biased toward brand new product launches rather than the repackaging of existing products. Unlike certain European markets, the promotion of repackaged fragrance lines may not work well in Japan.

- Make-up preparations, such as mascara are in demand. Mascara is the leading makeup item used to emphasize a facial feature among mainstream consumers in Japan. According to a consumer survey, about 80 percent of respondents reportedly change brands frequently. Products with high levels of performance in terms of curling, staying-power, fullness, and lengthening and defining lashes are in demand, as are those with conditioning or treatment ingredients. Other items drawing the attention of consumers are natural mineral make-up products that are gentle when applied to skin. Also, so-called BB cream that offers all-in-one type of multiple solutions such as moisturizing emulsion, beauty water/serum, foundation cream and sunscreen is becoming increasingly popular.

Key Suppliers

No official information is available on how many cosmetics manufacturers and importers exist in Japan. Industry sources estimate that there are about 4,000 companies with 130,000 brand items being distributed in Japan today. Major Japanese cosmetics manufacturers include Shiseido (<http://www.shiseido.co.jp>), Kanebo (<http://www.kanebo-cosmetics.co.jp>), and Kose (<http://www.kose.co.jp>). They are the “Big Three” in Japan’s cosmetics industry and cover market segments from highly prestigious brands to economy self-selection brands. In addition, there are major niche players in some product segments. Major foreign brand companies in Japan include P&G, AVON, ESTÉE LAUDER, L’ORÉAL, Revlon, and LVMH, to name a few.

There are many new entrants to the cosmetics market, such as drug companies, food and beverage manufacturers, as well as a photo film maker. These companies launch new skincare products capitalizing on their technological expertise such as biotechnology/nanotechnology, fermentation technology, or anti-oxidation technology. For example, Fujifilm entered the Japanese skincare market making full use of its technological expertise in using collagen as a raw material and anti-oxidation processes. These nanotechnologies are a by-product of manufacturing photo films to prevent fading. It is not unusual that retailers launch their own brand with the help of contract manufacturers. A leading catalogue house, Senshukai recently launched a hair care product which they developed internally. Furthermore, contract manufacturers are creating their own brands in search of market opportunities.

More new entrants means increased competition, leading to innovative products and new ingredients that further vitalize the industry as a whole

Prospective Buyers

Cosmetics are distributed in Japan through the following four channels. An industry source estimated the share of each channel for the last four years as follows:

Japanese Cosmetics Shipment by Distribution Channel

(Percentage)

	2005	2006	2007	2008	2009	2010
Chain store system	34.1	33.5	32.3	31.8	30.9	29.6
General distributorship	32.3	32.9	33.7	33.8	34.0	34.4
Direct marketing (Non-store)	25.8	26.0	26.1	26.3	26.9	27.7
Others	7.8	7.6	7.9	8.1	8.2	8.3

Source: Syukan Syogyo Jan. 1, 2011

Note: The above “Others” category includes institutional/professional channels such as aesthetic salons, spas, beauty salons and barber shops supplied directly by manufacturers or through distributors or wholesalers. Some cosmetics and toiletries are sold to the customers of these establishments.

High-prestige brands, including U.S. and European brands, are usually placed in the company-owned retail channel or in some forms of voluntary chain store network employing a counseling-based selling system (department store counters, cosmetics specialty stores, and boutiques). In such cases, the manufacturer deals directly with its own accounts through its own sales force or subsidiaries.

However, general distributorship is the most conventional channel, with products flowing from manufacturer to wholesaler to retailer. In this system, the manufacturer delegates distribution to the wholesaler/distributor and supports marketing via advertising and promotion. Consumers go directly to the store shelves where they look for the cosmetics of their choice, and no individualized professional counseling is offered.

While products traditionally marketed through this channel have typically consisted of daily necessities such as basic cosmetics and hair care items at relatively low prices, the variety of cosmetics distributed through this system is expanding. Many imported cosmetics are distributed via this general distributor system. A wholesaler imports products directly and supplies them to retailers, or an importer brings in a product from an overseas manufacturer and supplies it to wholesalers, who supply the retailers.

The direct marketing channel includes traditional door-to-door sales, TV shopping, mail order (catalogue) sales, and Internet shopping. Avon, Amway, and Nu Skin are traditional door-to-door companies having a legal presence in Japan, but it appears that growing numbers of imported cosmetics brands are focusing more on this channel because of its relative ease to gain quick access to the market (consumers) compared to other channels.

Market Entry

Japanese cosmetics consumers are known to be highly brand and quality conscious. It is important to understand that advertising claims are more restrictive in Japan than in the U.S. For example, efficacy claims using statistical data are not yet allowed. Therefore, product image, texture, and scent may play a greater role in the purchase decision than in the U.S.

In addition, consumers in Japan are very particular about the design and finishing touches (quality) applied to packaging. Also, their needs and tastes may change with seasonal trends and fashion changes. Thus, in order to cultivate and attract consumers, new foreign brands may need to invest in developing brand awareness, as well as in user education. Some cosmetics importers suggest that they are not interested in taking a look at a new products or brands presented to them unless the product is sharp looking and has an “attention getting story” to tell (i.e., how the concept has been developed, famous people who use it, unique characteristics, etc.). This is because consumers do not just buy a cosmetics product, but rather buy the total value -- or total appeal -- of the product. Industry sources suggest well-known celebrity endorsements may contribute to a successful launch.

Companies that wish to enter the Japanese market are advised to develop a product mix with unique features and ingredients and to target the correct market channel in order to attract the interest of buyers and Japan’s highly demanding consumers. Japanese cosmetics manufacturers are highly competitive and sophisticated, and they, too, are striving to bring new products with highly effective ingredients to the market.

Import duties for cosmetics range from zero (HS: 3303, 3304, 3305) to 5.4 percent (HS: 3307).

Market Issues & Obstacles

Japan's Pharmaceutical Affairs Law (the “PAL”) governs the cosmetics industry in Japan. According to the revised PAL, made effective in April 2005, a company that intends to market or import cosmetics products must obtain a license for marketing cosmetics on a commercial basis (“*keshohin seizoh hanbaigyo no kyoka*” in Japanese) from the appropriate local government offices for each business office location. For the company that intends to manufacture cosmetics, a license for manufacturing cosmetics (“*keshohin seizogyo no kyoka*”) must be obtained for each manufacturing location.

In order to obtain a license for marketing cosmetics on a commercial basis, an applicant company is required to comply with GQP (Good Quality Practice) and GVP (Good Vigilance Practice) in terms of quality control and post-marketing safety management. This is in accordance with the standards specified by MHLW (Ministry of Health, Labor, and Welfare) Ministerial Ordinances.

Thus, the applicant company must have a Product Quality Manager (“*hinshitsu hoshoh sekininsha*”), a Safety Control Manager (“*anzen kanri sekininsha*”), and a General Marketing Business Controller (“*sokatsu seizoh hanbai sekininsha*”). The General Marketing Business Controller, who supervises the other two managers, must be a licensed pharmacist or a specialist who has completed university-level or equivalent pharmacology or chemistry courses. A manufacturer of cosmetics must designate a responsible engineering manager who supervises practical manufacturing of cosmetics for each manufacturing establishment.

The law does not yet permit a foreign company to make direct application from overseas for a license to market cosmetics products to Japan. Thus, a U.S. company that wishes to export its

products to Japan first must find a qualified Japanese importer or representative or it must set up a Japanese subsidiary.

Upon receipt of the manufacturing or marketing license, the applicant company needs to file a notification of the product to be manufactured or imported. Then it can manufacture/import the product.

The Pharmaceutical Affairs Law (PAL) also stipulates that containers or wrappers of cosmetics products shall show the name and address of the marketer, name of product, production number or production code, name of cosmetic ingredients contained*, the shelf life of cosmetics if the product concerned is not stable for three years, and other information required by MHLW ordinance.

* A full ingredient listing on the container as required in the United States was put into force in Japan on April 1, 2001. Also, MHLW implemented Positive and Negative Lists of cosmetics ingredients. Accordingly, ingredients, the safety of which have been confirmed, can be mixed freely in a cosmetic product at the responsibility of the manufacturer or the marketer concerned, as long as the finished product meets the definition of cosmetics as described in the Pharmaceutical Affairs Law.

It is important for U.S. exporters and manufactures to note that some ingredients listed on the positive list are allowed only for limited uses in Japan, even if they have been widely used in other countries. For example, formaldehyde-donor-type preservatives (Imidazolidinyl Urea and DMDM Hydantoin) are not permitted in Japan with the exception of rinse-off type products, e.g., shampoos (warning labels are required for products containing these preservatives). Quaternium-15 is not approved in Japan. At the moment, suppliers who discover that their products do not meet existing standards usually seek resolution of their problems through product reformulation. This avoids complications with MHLW's strict requirements for safety and supporting data.

Several helpful publications in English are available from Yakuji Nippo (fax: 81/3/3866-8408, URL: <http://www.yakuji.co.jp/>). The regulatory agency for the cosmetics and toiletry products is the Ministry of Health, Labor and Welfare (MHLW), Pharmaceutical and Food Safety Bureau, Evaluation and Licensing Division or “*Shinsa Kanri-ka*” in Japanese (phone: 81/3/3595-2431, fax: 81/3/3597-9535 URL: <http://www.mhlw.go.jp/>).

Also, helpful information is available at the International Cosmetic Legal and Regulatory Database of the Personal Care Products Council at www.personalcarecouncil.org/.

Trade Events

The 72nd Tokyo International Gift Show

Dates: September 6 - 9, 2011

Venue: Tokyo Big Sight

Organizer: Business Guide-sha Co., Ltd.

Website: <http://www.giftshow.co.jp/english/72tigs/index.htm>

Diet & Beauty Fair Asia 2011

Dates: September 26 - 28, 2011

Venue: Tokyo Big Sight

Organizer: UBM Media Co., Ltd.

Website: <http://www.dietandbeauty.jp/en/>

SPA JAPAN 2011

Dates: September 26 – 28, 2011

Venue: Tokyo Big Sight

Organizer: UBM Media Co., Ltd.

Website: <http://www.spajapan.info/en/>

Beautyworld Japan West 2011

Dates: October 24 - 26, 2011

Venue: INTEX Osaka

Organizer: MESAGO Messe Frankfurt

Website: <http://www.beautyworldjapan.com/english/osaka/>

Health Care Expo 2011

Dates: December 8 – 9, 2011

Venue: Ikebukuro Sunshine City

Website: <http://www.healthcare-expo.com/outline/index.html>

The 73rd Tokyo International Gift Show

Dates: February 2012 (TBA)

Venue: Tokyo Big Sight

Organizer: Business Guide-sha Co., Ltd.

Website: <http://www.giftshow.co.jp>

Japan Drug Store Show 2012

Dates: March 2012 (TBA)

Venue: Makuhari Messe

Organizer: Japan Association of Chain Drug Stores

Website: <http://www.jacds.gr.jp>

Beautyworld Japan 2012

Dates: May 14 - 16, 2012

Venue: Tokyo Big Sight

Organizer: MESAGO Messe Frankfurt

Website: <http://www.beautyworldjapan.com/en/east>

The 25th Interphex Japan

Dates: June 2012 (TBA)

Venue: Tokyo Big Sight

Organizer: Reed Exhibitions Japan Ltd.

Website: <http://www.interphex.jp/ipj/english/index.phtml>

2nd Cosmetics Japan – Int'l Cosmetics R&D and Product Planning Expo

Dates: June 2012 (TBA)

Venue: Tokyo Big Sight

Organizer: Reed Exhibitions Japan Ltd.

Website: <http://www.cosmetics-japan.jp/en/>

Tokyo Health Industry Show

Dates: June 2012 (TBA)

Venue: Tokyo Big Sight

Organizer: UBM Media Co., Ltd.

Website: <http://www.this.ne.jp/eng/index.html>

Resources & Contacts

Japan Cosmetics Industry Association

<http://www.jcia.org>

Cosmetics Importers Association of Japan

<http://www.ciaj.gr.jp>

The Personal Care Products Council

<http://www.personalcarecouncil.org/>

The American Chamber of Commerce in Japan

Committee on Toiletry, Cosmetics and Fragrance

<http://www.accj.or.jp/>

Japan Nailist Association

<http://www.nail.or.jp>

Japan Beauty Supply Institute

URL: NA

Phone: 81/3/3864-4157, Fax: 81/3/3864

For More Information

The U.S. Commercial Service in Tokyo, Japan can be contacted via e-mail at:

Tokyo.Office.Box@trade.gov; Phone: 81-3-3224-5074; Fax: 81-3-3589-4235; or visit their

website: <http://www.export.gov/japan/en/>

KOREA (SOUTH)

Summary

Since early 2000, Korean women have become more receptive to Western products, especially in regards to foreign health and beauty items. As more Korean women enter the labor force and experience rising incomes, they have become avid users of imported cosmetics, yielding significant gains for U.S. suppliers. Other tendencies have developed in tandem with the strong continuing expansion of the Korean market for imported cosmetics. As Koreans tend to be more health-conscious, following the ‘well-being’ trend, they prefer natural and ‘green’ cosmetics products. Also, since Korean women want to look younger and healthier, functional cosmetics (cosmeceuticals) that focus on anti-aging, whitening, and anti-ultraviolet care have become very popular. Korean men are also becoming significant consumers of cosmetics, providing opportunities for cosmetics companies that feature men’s lines.

As the Korean cosmetics market continues to be polarized, with products either focused on the premium end or on the lower-priced, mass-market end, two distinct groups of consumers are becoming target audiences: those shopping at low-cost cosmetics franchise stores and those shopping for very expensive and luxurious cosmetics at department stores. The U.S.- Korea Free Trade Agreement (KORUS FTA) signed by both nations in June 2007 has the potential to bring further advantages for U.S. exporters as Korean tariffs on imported U.S. cosmetics are eliminated over three to ten years. These market trends portend good opportunities for U.S. companies in the years ahead.

Market Demand

The preference of Korean women for imported cosmetics has grown significantly as shown by the increased number of distribution channels, such as online shopping malls, department stores, and home shopping television networks. These retail channels, some non-traditional, have become the prime distribution channels for imported cosmetics products.

The Korea Food and Drug Administration (KFDA) has modified some of its pre-existing regulations on cosmeceuticals in an attempt to make the process of importing and testing foreign cosmetics in Korea less time consuming. In conjunction with this, the Korean government also announced that it will increase the budget to hire more personnel to handle KFDA’s testing and approval process due to the increasing number of cosmeceutical products entering the market. With these changes, the Korean government has demonstrated its willingness to address some of the concerns of cosmetics manufacturers in Korea as well as foreign producers.

Market Data

In 2008, the entire cosmetics market in Korea was estimated to be worth about USD 5.9 billion, an increase of three percent over the industry in 2007. Although the market had not increased much, the fact that it did show growth in 2008 shows the cosmetics market remains strong despite the economic recession Korea faced in late 2008. U.S. imports within that year account for 23 percent of the total imports into Korea. Continued growth in this industry sector is forecast over the next five years as a result of increased receptivity to Western styles and trends relating to health and beauty products among Korean women and men, leading to an increasing acceptance of imported quality cosmetics.

(Unit: USD million)

	2006	2007	2008
Local Production (excluding <i>Exports</i>)	4,189 (KW 4.0 trillion)	4,380 (KW 4.4 trillion)	4,290 (KW 4.7 trillion)
Exports	305 (KW 290 billion)	348 (KW 324 billion)	371 (KW 408 billion)
Imports	602 (KW 572 billion)	652 (KW 606 billion)	720 (KW 792 billion)
U.S Imports (included in <i>Imports</i>)	146 (KW 139 billion)	156 (KW 145 billion)	166 (KW 183 billion)
Total Market	5,734 (KW 5.4 trillion)	6,392 (KW 6.4 trillion)	5,990 (KW 6.6 trillion)

Exchange Rate: USD 1 = KW 950 (2006), KW 930 (2007), KW 1,100 (2008)

[Source: Korea Cosmetic Industry Association, Korea Pharmaceutical Trade Association, Amore Pacific 2008 Cosmetic Industry Forecast]

Best Prospects

Men's Cosmetics: In addition to the outstanding opportunities for women's cosmetics in the market, sales of men's cosmetics in Korea have also increased significantly. In 2006, men's cosmetic sales were approximately USD 520 million, about nine percent of the overall market in 2006. This market has increased to about ten percent of the whole market, with sales totaling up to USD 600 million in 2008. This market is expected to continue having a healthy annual growth of ten percent, and will soon reach USD 1 billion in a few years [Source: Amore Pacific]. This growth well reflects the increased expenditure on advertising for men's cosmetics. According to AGB Neilson, the advertising expenditure was USD 5.7 million in 2005 but the amount grew to USD 9.1 million in 2008. Also, Auction, one of the largest online shopping malls in Korea, reported that as of July 2009, sales of men's cosmetics has grown to about 30 percent in the past year. Their major consumers were aged 15 to 24, but the industry experts forecast the demographic will expand to include higher age groups in the future.

The most notable change in this market is that men have expanded their interest from simple skincare to other cosmetics, such as facial scrubs, facial masks, concealers, SPF products, lip care, eye brow care, color cosmetics, hair care and body care, as well as cosmeceutical products such as moisturizers, whitening cream and anti-aging products. In addition, local cosmetic companies are launching two-in-one or three-in-one products, such as a moisturizing lotion with a concealer function, to meet the growing demand for multi-functional merchandise. Lately, this category of ‘grooming men’, who purchase products for themselves, is increasing whereas in the past women used to buy the products for their boyfriends or husbands.

To meet this demand, another large online cosmetics shopping mall, Skin RX, has opened a “Mansumer (man + consumer)” corner where they only feature men’s cosmetics products including foundation, clear mascara, concealer, eye brow shaper, manicure, etc. Also, many department stores have opened cosmetics counters on the men’s floor featuring multiple brands, such as Clinique, Clarins, and Biotherm, with after-shave lotions, cleaning foams, facial scrubs, facial packs, essences, and other functional cosmetics.

Korea National Statistical Office announced that the ‘grooming men’ market was one of the top bluesumer (blue ocean + consumer) areas of March 2009.

Baby/Kids Products: According to an article by *Cosmetic Daily News* in July 2009, Yuhan Kimberly rose to become the largest player in the baby/kids cosmetic market with its baby/kids line, Green Finger, taking up to 31% of the baby/kids cosmetic market. The total market size is estimated to be about USD 110 million with over 100 brands competing against each other. This market has shown about an annual growth of twelve percent and is one of the blue oceans, not just for 2009 but for years to come. With the scare of asbestos contaminated talc in baby cosmetics and melamine found in baby formula, more parents are seeking natural and organic products. The strategy to success Yuhan Kimberly took to dominate the market within two years was to create a product concept that was “green, eco-friendly, and natural.” The company also divided baby and kids products, creating different lines between these two age groups. This satisfied parents who were looking for products for children aged 4 to 10; a demographic who are too old to use baby products and too young to share cosmetics with their parents. With Yuhan Kimberly dominating this market, the next biggest players are Boryung Medience and Johnson & Johnson.

A few of the most popular imported natural/organic baby brands are Burt’s Bees, Earth Mama Angel Baby, California Baby, Logona, Baby Organic, Noodle & Boo, and Aveeno. Some of the common factors Korean parents seek in baby/kids cosmetics are products that are free from artificial scents, colors and preservatives, paraben-free, talc-free, and products that only have natural/organic ingredients. These factors also apply for the product preferences of mother-to-bes and lactating mothers. As Korea has four distinct seasons, Korean parents often prefer to have rich moisturizing lotion for winter, light weight moisturizer for autumn, sunscreen and bug repellant products for the summer and etcetera, making these kinds of products one of the best sectors in this market. Fluoride-

free organic toothpaste is also becoming popular, though Korean companies are currently not manufacturing this product.

Cosmeceuticals: These are ‘highly functional’ cosmetics such as whitening, anti-aging, and sun care SPF products. Amongst skincare commodities, cosmeceutical products are the most sought after by consumers, and industry experts predict that the demand for whitening and anti-aging products will continue to be the strongest in this category. These cosmeceutical products are gaining widespread consumer acceptance since they often provide a wide variety of skincare needs. Most cosmetics companies have added these items to their product lines and this development can be seen in the table below:

<Table 1: Cosmeceutical Products Produced in Korea during 2006-2008>

(Unit: USD Million)						
Product Type	Production in 2006	Growth Rate	Production in 2007	Growth Rate	Production in 2008	Growth Rate
Anti-wrinkle	208.5	22.8%	200.0	-4.1%	286.2	43.1%
Whitening	167.9	36.3%	140.0	-16.6%	232.0	65.7%
Sunscreen	266.3	25.4%	295.1	10.8%	329.2	11.6%
Multi-function	41.7	12.0%	68.1	63.1%	155.5	128.4%
Total	684.4	26.1%	703.2	2.7%	1003.0	42.6%

[Source: Korea Food and Drug Administration, www.kfda.go.kr]

According to the KFDA, a total of 10,511 cosmetics products have been approved and registered as cosmeceutical products since 2004. KFDA registered the first cosmeceutical product in 2002.

Beauty Supplements: Koreans call these products ‘Edible Cosmetics’, which companies claim are designed to make skin look and feel softer, smoother, tighter, whiter, and younger by providing nutrition for the epidermis. Some of the main ingredients found in these supplements are collagen, hyaluronic acid, vitamin C, B, and E, pycnogenol, peptide, and other such chemicals. With a lead from large companies such as Amore Pacific and LG Household & Health Care launching their own beauty supplements, the commodities are forecast to spread out within the next few years. These products are all regulated by the Korea Food and Drug Administration as nutrition supplements, and they are mostly sold through drug stores and door- to-door sales.

Key Suppliers

According to Beauty Nury, an online information source on cosmetics, the top thirty cosmetics suppliers sold by three major Korean department stores, Hyundai, Lotte, and Shinsegae, in 2008 were:

<Table 2: Top 30 Cosmetic Brands Sold in Major Department Stores in Korea>
(Unit: USD Million)

Rank	Brands	Sales in 2008	Growth Rate in %
1	Sulhwasoo (Amore Pacific - Korea)	122.6	15
2	Estee Lauder (Estee Lauder Companies - U.S.)	101.5	16
3	Ohui / Whoo (LG - Korea)	100.5	17
4	Chanel (Chanel - France)	97.1	22
5	Lancome (L'Oreal - France)	84.9	19
6	Christian Dior (LVMH - France)	81.5	32
7	SK-II (Procter & Gamble - U.S.)	76.3	58
8	Hera (Amore Pacific - Korea)	74.9	9
9	Sisley (Sisley Paris - France)	74.2	11
10	Clinique (Estee Lauder Companies - U.S.)	61.2	31
11	Biotherm (L'Oreal - France)	54.2	23
12	M.A.C (Estee Lauder Companies - U.S.)	51.8	28
13	Shiseido (Shiseido - Japan)	50.6	13
14	Bobbi Brown (Estee Lauder Companies - U.S.)	46.5	15
15	Clarins (Clarins - France)	32.4	22
16	Guerlain (LVMH - France)	29.5	13
17	Benefit (LVMH - France)	21.1	33
18	AVEDA (Estee Lauder Companies - U.S.)	20.1	4
19	Kiehl's (L'Oreal - U.S.)	19.7	176
20	Elizabeth Arden (Elizabeth Arden - U.S.)	15.6	4
21	La Prairie (La Prairie - Switzerland)	15.2	18
22	Anna Sui (P&G - U.S.)	15.1	11
23	Shu Uemura (L'Oreal - France)	13.9	49
24	Make Up For Ever (LVMH - France)	13.5	11
25	Amore Pacific (Amore Pacific - Korea)	13.1	59
26	Bourjois (Bourjois - France)	12.6	7
27	Kanebo (Kanebo - Japan)	11.6	11
28	Fresh (LVMH - France)	10.5	24
29	Cosme Decorte (Kose - Japan)	10.5	32
30	Aramis (Estee Lauder Companies - U.S.)	10.0	35

[Source: Beauty Nury, www.beautynury.com]

Department stores are traditionally known to feature high-end luxury brands while other channels, such as online malls, TV home shopping channels, drug stores, discount stores and door-to-door sales, are considered non-traditional retailers and less-established imported brands are distributed through these channels. The key suppliers in these non-traditional channels are difficult to list, as most of the imported brands sold in these outlets are specialized in different niche sectors.

(Please Note: For a market research report on retail industry with detailed information on each sector, please contact the author.)

Prospective Buyers

The merchandise at high-end specialty stores, such as department stores and boutiques, generally make up about 80 percent of imported cosmetics. European cosmetics dominate the market while American, and to a much lesser extent, Japanese cosmetics account for most of the remainder, whereas only a few Korean brands are in this division. Among imported cosmetics sold in department stores, sales of skincare products have raised the most among women in their 20s, who favor shopping for luxury imported brands at department stores as well as women in their 40s and 50s, who have the disposable income to purchase these high-end products. Female shoppers in their 30s and 40s also purchase imported skincare products through online malls and direct selling companies, as many Korean companies like Amore Pacific and LG sell products through their “door-to-door” channel. Imported hair care products such as shampoos, conditioners and hair creams have shown significant market growth, especially among Korean women in their 30s and 40s who directly buy them through their hair salons.

Market Entry

I. Regulatory Regime

In Korea, cosmetics and all related products fall under the jurisdiction of the KFDA. In addition, the Korea Pharmaceutical Traders Association (KPTA) has been granted regulatory authority by the KFDA to assist Korean importers who wish to register their cosmetics products.

When a foreign company exports its cosmetics products to Korea, the **Korean importer** needs to submit the following documents to KPTA prior to the importation of the product:

Certificate of Manufacture (CoM):

- A listing of ingredient names must be included in accordance with the International Cosmetics Ingredients Dictionary (ICID) published by the Personal Care Product Council (PCPC - www.personalcarecouncil.org).
- The percentage of each ingredient must be listed next to it, and the percentage total of the ingredients must add up to 100 percent when it is calculated.
- The certificate must have the complete address of the manufacturing company, the name and signature of the President of the manufacturing company, and it must be notarized.

(Please Note: The recent change in cosmetic regulation allows the importer to submit a CoM with an approximate percentage of each ingredient, not the exact percentage. However, as the importer is required to keep a CoM with the exact percentage of each ingredient for future inspection, it is more burdensome for U.S. exporters to supply two types of CoM, even if the CoM with the exact percentage is not required to be notarized. Also, ingredients that are required to be used within a limit are exempt from this new

regulation so these still need to be listed with the exact percentage. Therefore, it is the normal practice for importers to submit a CoM listing full ingredients with the exact percentage of each, as it had been done previously.)

Certificate of Free Sale:

- It must be issued by a public institution such as the State Department of Health Services in the exporter's region, the local Chamber of Commerce, the state government body, Independent Cosmetic Manufacturers & Distributors (ICMAD – www.icmad.org), or the PCPC in the U.S.
- The document should identify the product by its full name as it is written on the manufactured goods, along with which country the shipment is intended for exportation.
- The document must have the signature of the person issuing the certificate along with a seal when applicable.

BSE-free Certificate/ Non-use of Animal Derivatives Certificate:

- If the product does not contain any raw materials from cows, lambs, or goats, the certificate simply needs to state that the product does not contain raw materials from these animals. The certificate will need to be issued by the manufacturing company with the signature of the person in charge, and it must be notarized.
- In the event it does contain such materials, the BSE certificate needs to state the amount and type of the material used in the product. The product name should be written in the certificate with a lot number, and it needs to be provided by the raw material supplier. This certificate needs to be supplied for every batch of the product and KPTA has confirmed that the only products with a BSE certificate that they allowed in the country are products with bovine skin.

Organic Certificate:

- In case your product claims to be organic, you do not need to list natural ingredients as 'organic' on the Certificate of Manufacture, as it only confuses KPTA if that particular organic ingredient is not listed in the ICID. For example, you do not need to list the organic lavender oil in your product as "organic lavender oil" on the Certificate of Manufacture. Simply state it as 'lavender oil', like you would for non-organic products.
- However, a copy of the organic certificate you obtained from the appropriate agency in the U.S., whether it be the USDA or any other agency, should be kept by your importer as a record if you market your product as 'organic,' as KFDA requires the importer to keep it to avoid charges of false advertisement.

(Please Note: To receive a sample of each document, please contact the author. In addition, we suggest that the U.S. company should work with its Korean importer to prepare these required documents in order to ensure that there were no changes made to the required documents since this report was written.)

II. Import Procedures

Cosmetics:

Once the documents are ready, the information should be sent to the Korean importer. Upon reception of these documents, the importer will then submit them to KPTA. KPTA, in turn, will review the documents and issue Import Permission for the approved products. The Import Permission will then be sent to the Korean Customs Service, indicating that the product has been cleared to be imported into Korea. Once the product has been cleared by Korean Customs, the importer is required to conduct a pre-market quality control test to ensure that the product complies with Korean safety regulations. This test is done within Korea FDA's authorized laboratories and it typically takes up to 14 days. While the samples are being tested, the importer works on putting Korean labels on each product. Once the quality control test is done and cleared, the importer is able to distribute the products inside the market.

Cosmeceuticals (whitening, anti-aging and sunscreen products):

When a Korean importer submits a commodity with a product name like 'Whitening Cream', which could mislead consumers into thinking it's a cosmeceutical product, KPTA will confirm with the importer whether s/he plans to import the product as cosmeceutical or regular cosmetics. If the importer intends to import it as regular cosmetics, KPTA asks the importer to write a comment in Import Permission as "I am importing this product as a regular cosmetic and will not make any function claims when marketing it in Korea." However, if the importer wishes to import it as cosmeceutical, the importer needs to submit a number of documents to prove the safety and efficacy of the product, including clinical test data done in a U.S. laboratory. Also, if the product contains raw materials that are not on Korea's ingredient list, the product will have to be further reviewed. The review period usually takes three months to six months and the current registration fee per product is between KW 30,000 and KW 60,000, but the fee is scheduled to be raised sometime near the end of 2009. Once the testing procedures are completed, the product will follow the same route as 'cosmetics' for the remaining procedures.

Please note that all original certificates will need to be submitted to KPTA by your importer. KPTA will keep the original BSE-free Certificate and return the original Certificate of Manufacture and Certificate of Free Sales to your importer to keep as a record when KFDA performs a bi-annual inspection visit to the importer's office. It is advised that your importer keeps a copy of the BSE-free Certificate. It is common for most foreign exporting companies to not wish to provide formula information (the ingredient list with the full percentage range in the Certificate of Manufacture) because of concerns over possible product ingredient disclosure.

In case you are concerned about your importer having the formula information, one alternative is to hire a private cosmetics consultant who will handle the registration procedures. That way, the ingredient information will remain confidential from your importer. This also means that the consultant will hold on to the original certificates for bi-annual inspections as well.

(Please Note: For a list of cosmetic consultants in Korea, please contact the author.)

Cosmetic Equipment:

There are additional import procedures for cosmetic equipment such as hair perm equipment, hair clippers, and other related products. The Korean importer needs to work with KPTA to find a Korean government-approved testing agency for safety approval and submit three samples to them. This process usually takes about a month. Vibrating massagers and facial massagers are classified as "medical equipment," which must go through a different and more in-depth testing procedure with approval usually taking about six months.

Market Issues & Obstacles

Preference for Fancy Packaging:

Koreans tend to favor European cosmetics over U.S. products, as European products have a more traditionally luxurious brand image. Koreans view U.S. products as more practical, and if given a choice between two products, one from France and one from the U.S., many importers would prefer to import the French products. Some Korean importers have explained to us that many Korean consumers "judge the book by its cover," i.e., when comparing the simple and practical packaging of some U.S. products to the more trendy and luxurious packaging of European products, it reinforces the impression that the European products are classier. Therefore, European products that are already in the market, such as Chanel, Lancôme, Sisley, the LVMH group and other such European brands, are the major competitors in this market.

Parallel Import:

Starting January 1st, 2009, the Korean government decided to allow parallel imports on cosmetics, as it was classified as a luxury product that was excessively expensive in Korea when compared to prices in other countries. Thus, the Korean government is allowing third party importers, which are unauthorized by U.S. exporters, to import cosmetics without a Certificate of Manufacture and/or a Certificate of Free Sales, as long as they can meet certain requirements. The Korean government's objective for this regulation is to keep costs down for consumers by allowing the third party to import goods as long as the products have been imported in the country before, and have gone through a registration process and quality control test in the past. The rest of the requirements are listed below:

- Each time the parallel importer intends to import cosmetics, the parallel importer must prove that the product s/he intends to import is exactly identical to the product that its original importer had in the market.
- In order to prove this, the parallel importer must submit a sample of the original product with its label in Korean by the original/official partner in Korea. Along with the original product, the parallel importer must also submit a sample of a product s/he intends to import so that the Korea Pharmaceutical Traders

Association official can visibly compare these two products to judge whether they are identical or not.

- Some of the areas KPTA officially reviews to come to a judgment is the name of product, the weight and volume of the product, the design of container, and the ingredient listing. In addition, if the particular product has not been imported within the country for the last three years by its original importer, the product is not allowed to be parallel imported.
- Once it's found to be identical, the parallel importer is issued Import Permission to clear shipment. The products will need to go through a quality control test before it's released in the market with its own Korean label.
- This process takes five days starting from the date the samples and application were submitted.

Although this regulation may protect Korean consumers from paying more than what is reasonable, this regulation will eventually create a price war among importers. This will leave a smaller margin for the original/official importer to make a profit and market the brand, especially since the Korean retail industry already has multiple layers of distribution for a smaller margin. Furthermore, industry experts forecast that all product claims will go to the original/official importer, as most parallel importers will not have any supporting documents, such as a formula list, to counsel any complaints from consumers should anything go wrong in the market.

Complete Ingredient Listing on Korean Labels:

In fall of 2008, the Korean government announced that all cosmetic labels in Korea should include a full ingredient listing to warn consumers about what is included in the product. These labels must be placed on the container, the outer box or an insert paper, and it must be in Korean. The full ingredient listing regulation varies depending on the volume of the product. See below for the detailed requirements:

❖ **Products that are for samples or testers:**

1. Name of product
2. Name of manufacturer or importer
3. Call Center information, contact information of manufacturer or importer, and the following statement: *"Exchange or refund will be provided if the product is found to have a fault."*
4. *"Not for Sale"*

❖ **Products that are less than or equal to 15 ml:**

1. Name of product
2. Name of manufacturer or importer
3. Price of product
4. Call Center information, contact information of manufacturer or importer, and the following statement: *"Exchange or refund will be provided if the product is found to have a fault."*

❖ **Products that are more than 15 ml, and less than and equal to 50 ml:**

1. Name of product
2. Name and address of manufacturer or importer
3. Price of product
4. Call Center information, contact information of manufacturer or importer, and the following statement: *“Exchange or refund will be provided if the product is found to have a fault.”*
5. Name of designated ingredients* and content if necessary
6. The volume or weight of product (in either milliliters or grams)
7. Lot numbers and manufactured date
8. For cosmeceuticals, state it either as a *“cosmeceutical”* or *“functional cosmetic”*
9. In the case of cosmeceuticals, state its efficacy, directions for use, and cautions as approved by KFDA
10. For regular cosmetics, state its cautions for use
11. Bar code

❖ **Products that are more than 50 ml:**

1. Name of product
2. Name and address of manufacturer or importer
3. Price of product
4. Call Center information, contact information of manufacturer or importer, and the following statement: *“Exchange or refund will be provided if the product is found to have a fault.”*
5. Name of all ingredients in descending order by content percentage and if necessary, content of designated ingredients*
6. The volume or weight of product (in either milliliters or grams)
7. Lot numbers and manufactured date
8. For cosmeceuticals, state it either as a *“cosmeceutical”* or *“functional cosmetic”*
9. In the case of cosmeceuticals, state its efficacy, directions for use, and cautions as approved by KFDA
10. For regular cosmetics, state its cautions for use
11. Bar code

* *Designated ingredients are ingredients with maximum allowable restrictions by KFDA such as tar color, gold foil, phosphate salt in shampoo and rinse, AHA, the active ingredients of cosmeceutical products, and ingredients mentioned in the name of the product.*

Trade Events

Name: Cosmobeauty Seoul

Date: May 6-9, 2010

Venue: Convention & Exhibition (COEX)

Organizer: Korea Cosmetic Association

Exhibits: Skincare, color cosmetics, hair/body/nail products, perfumery, salon equipment, cosmetics ingredients, and more.

E-mail: info@cosmobeautyseoul.com
Website: www.cosmobeautyseoul.com

Resources & Key Contacts

Korea Food & Drug Association (KFDA)
5 Nokbun-dong, Eunpyung-gu
Seoul, Korea
Tel: 82-2-380-1800
E-mail: kfda@go.kr (general inquiries)
Website: <http://www.kfda.go.kr/>

Korea Pharmaceutical Traders Association (KPTA)
#1801 World Trade Center,
Samsung-dong, Gangnam-gu
Seoul, Korea
Tel: 82-2-6000-1851~5
Fax: 82-2-6000-1850
E-mail: kpta@kpta.or.kr (general inquiries)
Website: http://www.kpta.or.kr/E_main.asp

For More Information

The U.S. Commercial Service in Seoul, Korea, can be contacted via e-mail at:
Grace.Sung@trade.gov; Yoonshil.Chay@trade.gov, Phone: 82-2-397-4324; 82-2-397-4439 Fax: 82-2-739-1628; or visit their website: www.export.gov/Korea.

MALAYSIA

Summary

Malaysians spent about US\$600 million on cosmetics and toiletries products, appliances and equipment in 2008. This demand was mainly met by imports. Skin-care products remain the main driver of growth for the cosmetics market. Apart from skin-care products, the second largest contributor to the cosmetics and toiletries industry is color cosmetics. Lip-coloring products command the largest share in the color cosmetic pie compared to face, eye and nails. Malaysia imported US\$225 million of skin and beauty products in 2008. This is a 35% increase from the previous year. With the current global recessionary economic climate, growth for 2009 is expected to be more cautionary in nature. A shift from high-end cosmetics and toiletries to the mid to mass market brands are anticipated. Even so, the demand growth for cosmetics and toiletries products and services, as well as devices and equipment is expected to be positive in the next few years.

Market Demand

Malaysians spent about US\$600 million on cosmetics and toiletries products, appliances and equipment in 2008. This has been the upward trend for the past three years, and the demand is mainly met by imports. With the current global recessionary economic climate, growth for 2009 is expected to be more cautionary in nature. Skin-care products remain the main driver of growth for the Malaysian cosmetics market. Industry players are expecting a shift in prestige and high-end brands to the moderately priced niche and mass market brands. This is especially so for consumers affected by the economic downturn. However, the well-heeled and the brand loyal consumers will either maintain or slightly reduce their current level of consumption.

There is a natural tendency for mass market and drug store/ pharmacies cosmetics and toiletries to thrive in times of economic uncertainties. In this market segment, targeted skin-types skin-care products are gaining popularity. Majority of the mass market cosmetics and toiletries are mostly manufactured locally or in the ASEAN region. Market leaders for cosmetics in the fast moving consumer goods segment are the multinational corporations (MNCs). Unilever, L'Oreal, and Proctor and Gamble have strong presences in Malaysia.

Besides the mass market cosmetics and toiletries produced by the MNCs, there are a handful of Malaysian-owned domestic manufacturers. These domestic manufacturers conventionally produce products with basic formulations. A big proportion of the more complex product formulations are derived from overseas experts. Gradually, we are seeing an emergence of local product formulation experts. If this trend continues, we may see more locally formulated cosmetics and toiletries products being manufactured locally.

Until that happens, almost all of the skin-care products used by most salons and spas in Malaysia will be imported.

Market perception of USA skin-care is that most of its products are primarily focused on skin rejuvenation, renewal and peeling. This rejuvenation process is achieved by the use of acids, i.e. AHA, BHA and other acids such as lactic and fruit. Doctor brands (products bearing a Doctor's name) are rather popular and organic/ natural skin-care are gaining market acceptance. Swiss skin-care products are perceived to be at the top end of the scale in terms of pricing, prestige and product efficacy. The main selling point for salon/spa on their line of skin-care products, which incidentally commands premium pricing, is on their touted products efficacy. Hence, targeted skin-care products that cater to various skin concerns would be the main criteria for selection.

France and Switzerland are the two top most popular countries of origin for salon/spa skin-care products from the European Union. Spanish, Greece and Italian skin-care products are slowly gaining market acceptance as well. Australian skin-care products can easily be found in the Malaysian market. So do Japanese and Korean products. Skin-care products from the USA targeting the salon and spa industry are on the rise.

Apart from skin-care products, the second largest contributor to the cosmetics and toiletries industry is color cosmetics. Lip-coloring products command the largest share in the color cosmetic pie compared to face, eye and nails. Popular mass market brands available in the market are mostly from the USA: Cover Girl; Maybelline; L'Oreal; etc. Popular higher priced color cosmetics brands available in the market are mainly from the Estee Lauder Companies, Moët Hennessy Louis Vuitton (LVMH), and Chanel.

Most of the equipment and devices used in this market are imported. On the lower end of the pricing range, Chinese and Taiwanese equipment and devices are very popular. USA and EU equipment and devices usually are targeted towards the high end market segment. For the purpose of this report, the usage of cosmetics and toiletries industry would encompass facial skin-care products, color cosmetics, hair care products and equipment, and nail products and instruments.

Market Data

Cosmetics & Toiletries Market

The domestic production of cosmetics and toiletries products and devices in Malaysia is relatively small in comparison to imports. Although some of the local manufacturers market their house brands, a big proportion of them are very much into contract manufacturing.

Malaysia is a net importer of cosmetics and toiletries products and equipment. Malaysia imported US\$225 million of beauty products in 2008. This is a 35% increase from the previous year. The import value for 2007 was about US\$167 million; while 2006's value was US\$156 million. Hair care products imports stand at US\$63 million for 2008.

Importation of manicure and pedicure sets has been on the rise as well. As of December 2008, Malaysia imported about US\$5 million worth of manicure sets. Although the rate of importation of essential oils are pretty constant for the year 2006 and 2007, hovering about US\$8.5 million; however, there was a huge 18% increase in 2008, to more than US\$10 million.

Malaysian Imports of Cosmetics and Toiletries Products and Equipment

Millions of US Dollars

	2006	2007	2008
Total Market Size	477	516	604
Total Local Production	181*	208*	240*
Total Exports	191	218	300
Total Imports	487	526	664
Imports from the U.S.	47	49	67

Source: World Trade Atlas and the Malaysian Department of Statistics.

Exchange rate: US\$1=RM3.50

*Estimated figure. The latest available data is dated 2003.

Best Prospects

As of 2008, 64% of the 27.7 million Malaysian population is in the 15-64 age group, and 4.5% of the population is above 65 years of age. A big proportion of the population is in the middle-age category. This age group is also the main users of anti-aging cosmeceuticals. Hence, demand for anti-wrinkle, anti-aging skin-care products are rising. Non-surgical anti-aging products and therapies are best sellers in the salon and spas business. Other anti-aging treatments provided in the market are the use of ampoules, serums and mesotherapy. Mesotherapy is a non-surgical cosmetic medicine treatment. It employs multiple injections of pharmaceutical and homeopathic medications, plant extracts, vitamins, and other ingredients into the subcutaneous fat. Cosmeceuticals are cosmetic products that are claimed to have drug like benefits which are typically applied topically. Examples of products labeled as cosmeceuticals include anti-aging creams and moisturizers. Cosmeceuticals may contain purported active ingredients such as vitamins, phyto-chemicals, enzymes, antioxidants and essential oils. Ampoules and serums are non invasive and is commonly applied topically in most facial treatments.

Other than anti-aging cosmeceuticals, rising demand is forecasted for shine-free and anti-blemish products. Malaysia is situated in a hot and humid tropical climate; hence, blemishes, open pores, and pigmentation are major skin concerns. Products that stop shine and unclog pores whilst treating break-outs and blemishes are very popular. Due to the strong sun rays, oil and shine-free sunscreens are highly in demand as well. Above all, no matter the skin types, high efficacy skin lightening products have enormous appeal. Products that target a combination of shielding the sun rays, and/or lightening the

skin tone and the skin pigmentations are highly sought after. As in most Asian countries, Malaysians generally prefer to be fair.

In addition to topical application of skin care and cosmetics products, there is increasing demand in oral skin health nutritional supplements. Collagen boosting nutritional supplements/ nutraceuticals are highly sought after. Hence, the nutraceuticals market is expected to grow. Examples of popular nutraceuticals supplements in the market include: vitamins; marine algae; stem cell extracts; probiotics; yoghurt; green barley; and sheep placenta extracts. Nutraceuticals are similar to cosmeceuticals except that the delivery method is different. Nutraceuticals are ingested orally.

On top of facial cosmetics and toiletries and internal beauty supplementation, manicure and pedicure are gaining increasing market acceptance. Nail salons providing manicure, pedicure and nail art spa treatments are mushrooming in major urban and suburban areas. These nail salons are usually located in most middle to high-end shopping malls. Some standalone hair salons and spas also provide manicures and pedicures in major business parks and commercial shop-lots. Popular nail treatment and nail polish used in these salons are OPI and Jessica. Popular mass market nail polish and nail care brands are L'Oreal, Maybelline, Revlon, and Sally Hansen etc.

There seems to be a direct correlation between Malaysia's increasing economic development, and the girth of its populace. Sedentary lifestyles, diets rich in coconut milk, sugar and oils are some of the major causes of obesity in the country. As a result, slimming centers are rapidly increasing in the urban areas. Malaysians seemed to like to take the non-exercise route of losing weight, i.e. taking diet supplements in the forms of tablets, powder, food bars, drinks and shakes. Most multi-level marketing companies are doing extremely well in selling these diet supplements.

Some of the slimming treatments currently provided in spas comes in the in the form of body wraps, herbal saunas, heated sand baths, and slimming and cellulite reduction skin-care products. In most cases, slimming devices are used in these treatments. Most of the slimming products available are anti-cellulite and thermal fat burning creams. Essential oils usage is also widespread. Unless there is a drastic change in sedentary lifestyles, the Malaysian weight-lost/slimming spa product and devices market demand growth is expected to continue for the foreseeable future.

Traditionally, the most prevalent method of body and facial hair removal used in Malaysia is by the use of tweezers and hair threading (hair removal with the use of a thread). Later, depilatory creams and epilators became more popular. Progressively mainstream hair removal methods are waxing and the use of lasers. Although shaving is one of the the easiest forms of hair removal, it is not as popular due to rough hair regrowth. Specials salons providing professional hair removal are now available in the market. Just as fast as the hair removal centers grow, on the flip side, hair retention centers/ hair growth trichology centers are also becoming more prevalent in the market.

Key Suppliers

Mass market cosmetics and toiletries are usually sold in pharmacies and supermarkets. A smaller range of these products can be found in most mom-and-pop convenient stores and mini markets. The high-end and prestige brands are usually sold in department stores and stand alone retail stores. Salon and spa brands are frequently marketed directly to the beauty salons and spa businesses. The distributor or agent would commonly have sales personnel make house calls to the salons and spas. Organic/ natural/ specialty and some cult cosmetic brands are generally sold in standalone stores and organic stores in various shopping malls.

There is high prevalence of cosmetics and toiletries being sold via the multi-level marketing (MLM)/ direct sales distribution channel in Malaysia. Typically, the MLM companies have their own private labels. They would either buy in bulk and repackage the products locally or from the source country. Some of the cosmetic/ toiletries/ personal care MLM corporations in Malaysia are: Amway, Avon, Cosway, Nu Skin, Nutri-Metics and Mary Kay. Amway and Cosway (a Malaysian MLM corporation with international presence that is part of a Malaysian conglomerate group) are competing neck-to-neck as the market leader. The poll positions between these two companies are interchangeable year to year. The beauty and wellness category contributes about 50% of Amway's total Malaysian sales.

Examples of various brands available in the market are:

- Departmental stores: SK-II, Clinique, Shisheido, Christian Dior, Chanel, Kanebo, Biotherm, Clarins, L'Occitane, Laura Mercier, Cosme Decorte, Origins, Haba, Jurlique, StriVectin, N.V. Perricone M.D., Dr. Sebagh, Dior, Lancome, Estee Lauder, Kose, Bobbi Brown, Shu Uemura, Dr.Ci:Labo, Anna Sui, RMK, Sisley, La Prairie, Guerlain, Laneige, Davidoff, Burberry etc.

- Salon/ Spa brands: Sothys, Thalgo, Phytomer, Guinot, Dermalogica, Jeanne Piaubert, Swissline, Casmara, Obagi.

- Specialty/ Niche/ Cult/ Organic brands: Aesop, Anick Goutal (fragrance), Avalon, Kiehls.

- Pharmaceutical brands: Neo Strata, Vichy, Avene, RoC, Eucerin, Sebamed, Neutrogena.

- Nail Polish: Maybelline, Revlon, L'Oreal, Sally Hansen for mass market brands. OPI and Jessica are the two popular professional brands in the market.

Hair care products are sold in the mom-and-pop grocery stores, mini markets, pharmacies, supermarkets, and hypermarkets. Organic hair products are usually sold at

specialty organic stores, or at select high-end grocery stores. Professional hair care products are sold mostly at hair salons and specialty professional hair care retail stores.

Major Supplying Countries of Cosmetics and Toiletries Products and Accessories to Malaysia for Year 2008.

Products	US Market Share	Top Three Competing Countries Exporting to Malaysia
Essential Oils	11%	Spain (19%), UK (16%), USA (11%),
Make-up & skin-care preparation	18%	USA (18%), Thailand (15%), France (13%)
Hair Preparations	6%	Thailand (56%), Indonesia (9%), Japan (9%)
Pre-shave/ shave/ after shave preparation	5%	Thailand (26%), France (16%), China (11%)
Art/Cosmetic brushes	27%	China (41%), U.S.A. (27%), Hong Kong (9%)
Hair & Shaving brushes	17%	China (34%), U.S.A. (17%), Singapore (9%)
Tooth brushes	5%	China (57%), Vietnam (12%), India (8%),
Oral Hygiene /Dental Floss Preparations	2%	China (42%), Thailand (34%), Indonesia (9%)
Manicure Instruments	0.7%	Singapore (48%), China (23%), Germany (2%)
Hair Removal Appliance	1%	China (56%), Hungary (22%), Czech Republic (15%)
Electric Hair Clippers	17%	China (69%), USA (17%), Thailand (10%)
Electro-thermal Hair Appliances	0%	China (68%), Hong Kong (18%), Netherlands (4%)
Electric Hair Dryers	0%	China (52%), Thailand (38%), Italy (8%)

Prospective Buyers

As of 2008, Malaysia's population size is about 27.7 million. Out of this, 32% are less than fifteen years old, 64% are in the 15-64 years old group whilst the remaining 4.5% is above 65 years of age. Hence, a large proportion of the population uses some form of cosmetics and toiletries. There are various factors that contribute to the increasing demand for cosmetics and toiletries products in this country. It is a combination of increasing skin-care products usage by the male gender; plus the fact that half of the Malaysian workforce is female; along with the changing trend of the traditional "soap-

and- water” cleansing ritual to the three step skin-care routine of “cleanse, tone and moisturize”. This three step skin-care cleansing routine is similar to both men and women. However, this cleansing ritual adoption is more prevalent among the urban metrosexuals. Additionally, the young adults are beginning to use skin-care products at an earlier age. As for the institutional buyers, they can be divided into two categories: those that will promote a foreign brand name/ trade mark, and those that wish to promote their own private label.

Market Entry

Securing the assistance of an agent or distributor is usually necessary for market entry into Malaysia. Registration with the Malaysian Drug Control Authority is necessary for most cosmetics and toiletries products. Once, the product is approved for importation, the appropriate distribution channels are usually determined by the product target market. Further, as over 60% of the Malaysian population is Muslim, US companies that intend to sell to the Muslim consumers should be aware of the Halal requirement. If necessary, having the product Halal certified would be advantageous as well. Halal is defined as what is permissible under the Islamic Shariah Law. Malaysia recognizes three Islamic bodies in the U.S. Although most of the Halal certification is food related, increasingly we are seeing more of these requirements translated into cosmetics and usable goods. These certifying bodies are:

- [Halal Food Council International \(HFCI\)/ Halal Food Council South East Asia \(HFC-SEA\)](#), Salisbury, Maryland
- [Islamic Services of America \(ISA\)](#), Cedar Rapids, Iowa
- [The Islamic Food and Nutritional Council of America \(IFANCA\)](#), Chicago, Illinois

Market Issues & Obstacles

The Guidelines for Control of Cosmetic Products in Malaysia is prepared in accordance to the ASEAN Cosmetic Directive. Under the Control of Drugs and Cosmetics Regulations 2007, the company or person responsible for placing a cosmetic product in the local market must notify the Director of Pharmaceutical Services (DPS) through [National Pharmaceutical Control Bureau](#) (NPCB) prior to product manufacture or importation. A written authorization from the product owner is required if the company or person notifying does not own the product. Cosmetics manufactured or marketed by ASEAN firms are exempt from registration. The Government of Malaysia regulates the manufacture, sale and importation of cosmetic products in the following ways:

- Notification is necessary to DPS of all cosmetic products that are to be manufactured, for sale/ wholesale or imported.

- The company or person carrying out the notification must be registered with the authority. Applicant must be a company incorporated in Malaysia.
- Product can only be sold in the market once authorized.
- The company or persons carrying out the notification to do post-market surveillance.

A company is required to submit the original Certificate of Analysis for cosmetics with skin-whitening ingredients. As a general rule, claimed cosmetic benefits must be justified by substantial evidence and/or by the cosmetic formulation or preparation itself. Cosmetic products should not make claims that are regarded as medicinal in nature. It is an offence to import, sell or offer to sell any products containing a substance under the Poison Control Act.

There are also indications that Malaysian Standard MS1500:2400 may be similarly used for cosmetics and personal care products. MS1500:2400 is intended for use in the production, preparation and handling of Halal food. The general guideline on this is waiting to be gazette. The main concerns over the issue of Halal cosmetics and personal care products for the majority Muslim population stems from derivative of collagen from porcine animal source (animal skin, fur, bones, nails, teeth and horns).

Malaysian Cosmetics and toiletries Products and Equipment 2009 Import Duty and Sales Tax Order

	<u>Import Duty%</u>	<u>Sales Tax%</u>
<u>Skin-care preparations</u>		
Essential Oils	0	0 *IL
Perfumes in liquid, cream or solid form	0	0
Lip make-up preparation	0	0
Eye make-up preparation	0	0
Other skin care preparations (other than medicaments)	0	0
Cosmetic Face Powders Compress/not compress	20	10
Beauty creams, cleansing, cold and make-up creams	0	0
Skin food and skin tonics or body lotion	0	0
Sun-tan-sunburn preventive preparation	0	0
Eyelash brushes	15	10
Cosmetic application brushes	5	10
Travel sets for personal toilet	5	10
<u>Nail Manicure or Pedicure Instruments and Preparations</u>		
Nail polishes and varnishes	0	0
Nail removers	0	0
Nail polishes / varnishes	0	0
Nail varnish removers	0	0
Nail cleaners/clippers/files nippers	25	10

Preparations for use on the hair

Shampoo	20	10
Preparations for permanent waving or straightening	10	10
Hair lacquers and others	10	10
Hair dressing appliances, hair dryers	0	10 #IL
Other hair-dressing apparatus	0	10
Hair dressing appliances parts	0	10
<u>Preparation for oral or dental hygiene</u>		
Tooth paste	0	10
Tooth powder	0	10
Dental Floss	0	0
Other	0	10
Toothbrushes, dental-plate brushes	20	10
<u>Pre-shave/ after shave/ deodorants and depilatories</u>		
Pre-shave/ Shave/after shave preparation	0	10
Antiperspirant/ personal deodorants	0	0
Perfumed bath salts and other bath preparations	0	10
Other perfumery or cosmetics, including depilatories	0	0
Contact lens and artificial eye solutions	0	10
Other	20	10
<u>Soaps: Bar or liquid</u>		
Toilet soap	0	10
Medicated or disinfectant soap	0	10
Soaps in other forms	0	10
Organic surface-active liquid/cream soap	0	10
<u>Razors and razor blades</u>		
Razors	0	10
Safety razor blades	0	10
Razor blades blanks in strips	0	10

Note:

*IL: denotes Import License requirement from Food Quality Control Division, Ministry of Health

#IL: denotes Import License requirement from the Director General of Electricity Supply Malaysia

Trade Events

- [Beauty 9 Expo](#), October 9-12, 2009, Putra World Trade Center, Kuala Lumpur.
- [CosmoBeaute](#) 2010, Kuala Lumpur (exact date not available).

Resources & Key Contacts

- [The Cosmetics, Toiletries and Fragrance Association of Malaysia](#)
- [Dermatological Society of Malaysia](#)
- [National Pharmaceutical Control Bureau](#)
- [Nutrition Society of Malaysia](#)

For More Information The U.S. Commercial Service in Kuala Lumpur, Malaysia can be contacted via e-mail at: Tracy.Yeoh@trade.gov; Phone: 60-3-2168-5089; Fax: 60-3-2142-1866; or visit their website: www.export.gov/Malaysia

NEW ZEALAND

Market Overview

New Zealand has a small but innovative cosmetics and toiletries manufacturing sector focusing mainly on natural products. Imports represent more than 90% of the market. In 2010, New Zealand's imports of cosmetics and toiletries totaled US\$364 million - an increase of 12% on the previous year. The United States is the second most important source of cosmetics and toiletries after Australia. In 2010, New Zealand's imports of U.S. cosmetics and toiletries totaled US\$60 million – approximately 16% of market share. Under the Closer Economic Relations (CER) Agreement, Australian manufactured products enter New Zealand duty-free. Some U.S. firms manufacture products in Australia under license and export to New Zealand under CER.

Australia is New Zealand's nearest neighbor and most important trading partner. New Zealand is geographically isolated from its neighbors. Although agriculture is a significant part of the local economy, most New Zealanders live in urban centers. New Zealand's 4.4 million people live mainly in three main urban centers: Auckland and Wellington in the North Island and Christchurch in the South Island. Auckland is New Zealand's largest city, with 30 per cent of the country's population. Approximately 75% of New Zealanders live on the North Island.

New Zealand has an aging population. By 2031, population projections for people aged 65 and over are forecast to represent 21% of the total population. New Zealand's population is made-up of approximately four-fifths European and one-fifth Polynesian. The country's Polynesian population consists of the Maori people (native New Zealanders) and Pacific Islanders from mainly the Cook Islands and Samoa.

STATISTICAL TABLE

STATISTICAL TABLE			
U.S. Dollars (Millions)			
	2008	2009	2010
Import Market	332	325	364
Estimated Local Production* (est.)	80	80	80
Exports	57	51	63
Estimated Market	355	354	381
Imports from the U.S.	52	55	60

Source: Statistics New Zealand

Exchange Rate (July 2011): NZ\$1 equals U.S. 86 cents

Brand loyalty and brand knowledge largely determine consumers' purchasing behavior. The cost of the product and whether there is a sales incentive at the time of purchase also influence sales. Marketing claims capitalizing on New Zealand's aging population tend to motivate New Zealanders to purchase products. For instance, many products have labels

that claim to "help defend against visible signs of premature aging" or "helps fight wrinkles." New Zealand consumers closely follow international trends. Local consumers perceive natural cosmetics and toiletries as pure, gentle, and effective.

The New Zealand Cancer Society's advertising campaigns are helping educate New Zealanders about skin cancer as well as the sun's ability to prematurely age skin. These factors, combined with knowledge about ozone depletion and an appreciation for outdoor life-style has increased the use of dual-purpose skincare products. Caucasian women regularly use skin-tanning products during summer. Hair removal products are very popular during the warmer months of November to March.

The Christmas season, which takes place during New Zealand's summer, is the high season for retail sales. Cosmetics and toiletries sales sell nationwide through beauty salons, supermarkets, department stores, service stations, garden centers, and pharmacies.

Market Access

- There are no import licensing requirements.
- Companies must comply with the following cosmetic group standard: <http://archive.ermanz.govt.nz/hs/groupstandards/standards/cosmetics/cosmetics.html> and New Zealand's dental group standard: <http://archive.ermanz.govt.nz/hs/groupstandards/standards/dental.html>
- The Advertising Standards Authority governs advertising standards and provides a voluntary approval system for monitoring product claims.
- Tariffs range from 0-5%.
- New Zealand Customs restricts the import of aerosol sprays that contain ozone-depleting substances.
- Some product ingredients are culturally sensitive to New Zealand's indigenous population (the Maori) and Pacific Island people. For example, it is politically incorrect to use human placenta in any product for this market.

Legislation

Fair Trading Act: This Act prohibits false or misleading information about a product or service. Legislation includes prohibition of packaging that gives a misleading or deceptive impression about the contents.

Consumer Guarantees Act: This Act regulates that manufacturers/importers must ensure all goods are of acceptable quality. The goods must be free from minor faults. Also the goods must be safe and durable; and correspond with any description, sample or demonstration model given or shown to the consumer.

Therapeutic Goods Agreement:

On 20 June 2011 the Prime Ministers of New Zealand and Australia announced that the New Zealand and Australian Governments have agreed to proceed with a joint scheme for the regulation of therapeutic goods. The Agreement covers any cosmetic or toiletry that claims a therapeutic effect. For example, a face powder marketed for a cosmetic purpose only is not a medicine, but if a claim is made that the powder will also treat acne it is claiming a therapeutic effect. Further information on the Therapeutic Goods Agreement is available via: <http://www.medsafe.govt.nz/hot/anztpa.asp>

For More Information

The U.S. Commercial Service in Wellington, New Zealand can be contacted via e-mail at: janet.coulthart@trade.gov; Phone: + 64-4-462-6002; Fax: + 64-4-473-0770 or visit their website: www.export.gov/newzealand

PHILIPPINES

Summary

The Philippines' importation of cosmetics, toiletries, and personal care products (lip and make-up, perfumes, soaps and shampoos, skin and nail care preparations) was valued at \$435 million in 2010. Domestic production still dominates the cosmetics industry with approximately 80% share.

Total imports grew by 10%, from \$395 million in 2009 to \$435 million in 2010. Thailand is the top exporter among third country suppliers; some cosmetics and most toiletries for sale in the Philippines come from Thailand. Filipino consumers are price-conscious but also value quality in the products that they buy.

Imports from the U.S. include lipsticks, oil-free make-up foundations, perfume, and skin care and hair care products.

Market Demand

The Philippines' total importation of cosmetics, toiletries, and personal care products reached \$435 million in 2010. Thailand's market share was 26%, Singapore's market share was 20%, and Indonesia's was 12%. U.S. market share was 8%.

Imports from Thailand and Indonesia were primarily toiletries that were formerly manufactured in the Philippines. These products, which are competitive with locally produced goods, have eaten into U.S. market share.

Most of the toiletries that the Philippines imported from Thailand are also U.S. brands. Likewise, local cosmetics and toiletries are U.S. brands manufactured by local subsidiaries like Colgate-Palmolive, Johnson & Johnson, and Procter & Gamble; and multi-level/direct-selling companies like Avon, Sara Lee, and Mary Kay.

Demand for raw materials and finished products for skin whitening and anti-ageing (glutathione, metathione, tretinoin, etc.) continues to grow. Local manufacturers of cosmetics, toiletries and personal care products use whitening ingredients to address local and export demands. Most companies include a whitening component in their entire product line -- from soaps and moisturizers to toners and sunblocks and creams. Philippine-made cosmetics, toiletries, and personal care products are exported to other countries, most notably to the Middle East. Some local products with whitening properties also contain natural and organic ingredients from locally available sources such as green and ripe papaya and *kalamansi*, a local lime. Other skincare preparations may contain locally sourced avocado, aloe vera, seaweeds, and alum.

The demand for cosmetics, toiletries, and personal care products continue to grow as consumers become more aware of the importance of health and hygiene. There are now

also more products formulated for young skin aimed at young consumers.

Market Data

In 2010, the Philippines imported \$435 million worth of Cosmetics, Toiletries and Personal Care products. Local production is valued at approximately US\$1.7 billion, based on industry estimates that local production of Cosmetics, Toiletries, and Personal Care products is about 80% of the market.

	Total Imports	U.S.A.	Thailand
<i>2010 TOTAL</i>	\$435	\$33	\$113
<i>2009 TOTAL</i>	\$394	\$30	\$130

Source: National Statistics Office

Thailand was the biggest exporter with 26% market share; Singapore was next with 20%; Indonesia followed with 12%, and the US with 8% of the market.

The U.S. is strongest in hair lacquers (about 61% of all imports); nail care (34% of all imports); lip preparations (17%); bath soap; facial and skin creams; and some hygiene products.

Best Prospects

Products with best prospects for U.S. manufacturers include hair lacquers and nail care products, also colored make-up, cleansers, toners, moisturizers, and some whitening/brightening formula. Many of these have little or no domestic manufacturing operations.

A growing number of female consumers spend on facial and underarm whitening products, special hair care applications, and quality make-up products. Colored pressed powder; liquid foundation; rouges and blushers; and scents, toilet water, colognes, and body sprays, have always been consumer favorites.

Products for men and the youth also have good prospects. Although the majority of buyers are still women, marketing geniuses have persuaded a growing number of men to be conscious about grooming and looking good. Manufacturers and advertisers have also identified the youth as a huge consumer market sector and have positioned products and brands to target them.

Key Suppliers

Domestic manufacturers include Avon Philippines, Cherry Laboratories; Colgate Palmolive Philippines; J&J Philippines; Jemica Cosmetics Manufacturing; S A Goldon Philippines Corporation; and Splash Corporation/Hortaleza Beauty Center (HBC); while imported products include such brands as Avon (some Avon products are imported); Fullerton (Sara Lee); Mary Kay Cosmetics; Maybelline; Dial and Lander Products; Shiseido; Max Factor; L'Oreal; Kanebo; and numerous other brands.

Besides toiletries and personal care products, which are available in supermarkets, drugstores, and convenience stores, market top-sellers in cosmetics are those that are distributed through multi-level marketing or direct selling – Avon, Mary Kay, Fullerton (Sara Lee). Majority of these products are US brands. These imported goods are not only considered quality products, they are also price-competitive. If the choice between a locally manufactured product and an imported one is a few pesos, a consumer would likely buy the imported brand.

Cosmetic products in the market may either be locally produced or imported. Imported cosmetics come from Japan, Thailand, Malaysia, Indonesia, the U.S., Singapore, China, Germany, U.K., France, and Italy.

Filipino consumers are price conscious, but also look for quality in the products that they buy. Contrary to popular notion, China is not a popular source for less expensive cosmetics because of issues regarding toxic contents in cosmetics.

European brands, especially with designer labels are considered high-end, and therefore, expensive.

Prospective Buyers

Since toiletries and personal care products are essential to grooming, prospective end-users are technically, the entire population. In reality, however, about 60% of the population has disposable income or some means of livelihood to afford basic grooming products. The rest (40%) are dependents who do not purchase.

Market demand drivers are the country's growing population; more women joining the workforce; better job opportunities and improved employment; and a general awareness for good grooming.

Cosmetics spell the difference between social classes. High-end make-up and skin and hair care have a market among women of leisure and women executives. Middle class women buy imported as well as local cosmetics, but may splurge on a signature cologne or lipstick from time to time.

A growing number of Filipino women are now also using whitening (bleaching) and anti-aging products. Industry speculates that this is a result of media influence -- advertisers use movie stars and other popular role models in their promotional campaigns. Movie stars either have glowing, tanned skin or white and luminous complexion.

While majority of buyers are female, a growing number of men are now more conscious about looking good. Many products are also being developed for the youth sector.

Market Entry

The best way for a US company to sell to the Philippines and ensure broad exposure for its products is by working through a distributor who would distribute them nationwide through dealer or agent networks. The local distributor becomes responsible for registering the imported products with the Food and Drugs Administration (FDA).

Laws and regulations governing cosmetic products, including registration, may be found in the FDA website: <http://www.bfad.gov.ph>

Generally, local and imported cosmetic products are sold in retail outlets – specialty stores/boutiques, department stores, and most drug stores, and supermarkets.

High-end cosmetics, personal care products and toiletries are usually found in specialty stores or a special section of department stores. More affordable brands are in department stores and drug stores, or sold through multi-level marketing.

Print and broadcast media are important when introducing a product in the Philippines to help build brand name and product recall. Most of the popular brands, whether local or imported, promote through various advertising media – print, billboard, TV, even radio.

The Philippines imposes 1%-10% tariff duty and a 12% value-added tax (VAT) on imported cosmetic products.

Market Issues & Obstacles

Restrictions, allowable active ingredients, and other registration requirements are also available in the aforementioned web link of the Philippine FDA.

Like food and drugs, all cosmetic products must be registered with the FDA before they could be sold in the market.

Besides stringent requirements for registration, the (registration) process itself is tedious and bureaucratic. Average time that it takes to register a product with the FDA is from 6 to 18 months.

Trade Events

COSMOPROF ASIA 2011

November 9-11, 2011

Hong Kong Convention Centre

Hong Kong

<http://www.cosmoprof-asia.com>

Resources & Contacts**Bureau of Food and Drugs (BFAD)**

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Muntinlupa, Manila 1781

Web Site: www.bfad.gov.ph

Chamber of Cosmetics Industry of the Philippines, Inc.

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Philippines

For More Information

The U.S. Commercial Service in Manila, Philippines can be contacted via e-mail

at: Dey.Robles@trade.gov; Phone: (632) 888-6078; Fax: (632) 888-6606; or visit their

website: www.export.gov/philippines

RUSSIA

Summary

Until the current global economic crisis, Russia had a nine-year run of continuous rapid economic expansion (approximately 7% annually). With over 140 million consumers, a growing middle class and almost unlimited infrastructure needs, Russia is one of the most promising U.S. exports markets.

Russia is the U.S.'s 28th largest export market, and 2009 U.S. exports to Russia were \$5.4 billion, a 42% decrease over 2008 due a global economic crisis. According to Russian statistics, leading exporter countries to Russia include, in descending order: China, Germany, Japan, Ukraine, U.S., Italy, South Korea and France. The U.S. has an approximate 5% share of Russian imports.

The Russian cosmetics market was valued at \$9.7 billion in 2009 and offers many market opportunities for U.S. manufacturers despite the economic downturn and rather cumbersome regulatory approval process. The leading exporter of toiletries and cosmetics is France.

Market Demand

The Russian beauty products market has been experiencing steady growth and has been one of the fastest growing industry sectors in Russia during the last decade. According to industry research firm Staraya Krepost, the total current value of the Russian beauty products market is approximately \$9.7 billion with recent growth of 8% despite the global economic crisis; 53% of the market consists of imported products. Industry specialists believe the market may increase 7-8% in 2010 and reach \$11 billion, \$12.3 billion in 2011, and \$13.5 billion in 2012.

Key market segments are: make-up, hair care; skin care products; and toiletries. Spa, pedicure, and manicure products are also fast growing subsectors in the cosmetics industry.

The last several years have been characterized by a rapidly growing demand for high quality and individualized cosmetic products. Both foreign and local manufacturers created awareness of different skin and hair types, as well as the advantages of using a full range of skin and hair products. Cosmetics started to be viewed as a means not only to achieve beauty and a general improvement in health. Beauty and spa salons are becoming more and more popular.

Due to the economic downturn, however, while women will continue to spend money to make their skin look better, visits to spas and beauty salons are becoming less regular; thus there is a growing demand for professional products for home use. When the ruble

was depreciating, prices on imported cosmetics and toiletries increased 30-40%, thereby intensifying demand for mass market products with a combination of price and quality.

Best Prospects

Given the above dynamics, the best sales prospects include the following categories:

- Make-up
- Skin and hair care products from mass-market to middle to high-end
- Professional skin care products for home use
- Spa products and treatments
- Beauty and hair salon products and equipment
- Anti-aging cosmetics
- Manicure and pedicure products
- Cosmetics for men and children

Key Suppliers

Domestic manufacturers have almost 50% of the mass-market and middle market brands. The biggest manufacturers like Kalina, Nevskaya Kosmetika, Svoboda and Faberilic manufacture both mass-market and higher-end skin care products, which are very close to the quality standards of Western luxury market products.

The competition between foreign and local manufacturers in the mass-market and middle market segments is intense. Generally, foreign producers outpace local ones with higher rates of new technology commercialization and large marketing and advertising budgets. A number of leading foreign suppliers, for example Procter & Gamble, Schwarzkopf & Henkel, Unilever and Beiersdorf (Nivea brand), has entered the low-end segment and proved very successful. Russian consumers traditionally trust foreign brands more than local ones because they guarantee stable quality.

Competition in the Russian beauty products market has also intensified in the last few years because locally made brands, which are sold at a comparatively low price, have increased their market share. As a result, the cost of entering and developing the market is now higher. Finding a niche is also becoming more difficult, and success in the market requires large investments in advertising, marketing, and promotion, including participation in cosmetics trade shows.

Prospective Buyers

Russian women especially spend a significantly higher portion of their disposable income on cosmetic products than do their overseas counterparts. According to another market research firm, COMCON, the average Russian woman is spending 12 percent of her income on cosmetic products even during economic downturn.

The last several years have been marked by profound changes in cosmetics distribution and retailing in Russia. Many foreign companies have opened representative offices in Russia and therefore are able to conclude agreements directly with retailers without the help of distributors. Retailers have become the key players in the market versus distributors.

According to the marketing agency L'Agence de Lux, cosmetics and toiletries distribution segments are:

- Cosmetics retail chains (30%)
- Department stores (25%)
- Direct sales (20%)
- Pharmacies (10%)
- Outdoor markets (10%)
- Internet-sales, concept stores (5%).

Market Entry

Most U.S. exporters gain marketing entry success by partnering with a Russian distributor or retail chain.

Changes in the market structure and constantly growing demand for quality beauty and health products have motivated distributors to shift their business from developing wholesale trade to expanding retail chains. Specialized cosmetic retail chains are showing the fastest growth rates. These specialized cosmetic and perfumery store chains are rapidly expanding to meet the demand for exclusive, luxury products. Currently, such cosmetic chains as L'Etoile, Yves Rocher, Ile de Beaute, Douglas Rivoli, Articoli and Sephora represent Russia's retail business. Some of the cosmetic chains such as L'Etoile, Ile de Beaute, and Yves Rocher have their outlets in all major Russian cities.

The assortment of products in cosmetic retail chains has changed too. Middle-market and mass-market brands now compliment exclusive products. At the moment, the share of mass-market products in retail chains has grown to 20 percent. The consumer's attitude towards cosmetic stores has changed significantly as well. Customers now prefer to make cosmetic purchases in specialized places where qualified shop assistants are able to help them make selections.

The majority of mass and medium-market products are distributed by a number of import/wholesale firms that work directly with large multi-product retail chains such as Pyatyorochka, Perekryostok, Sedmoy Continent, Ramstore, Auchan and Metro.

One more channel for mass-market and middle-market brands, as well as curative cosmetics are pharmacies, especially pharmacy chains. More consumers trust the medical application of cosmetic products. A very successful example of the brand which is sold exclusively in pharmacies is Vichy (L'Oreal).

A growing share of cosmetics and toiletries sales belongs to direct sellers like Amway, Avon, Mary Kay, Oriflame, and Faberlic.

Finally, the Internet has recently become a more important distribution channel, and there are many online stores such as:

- <http://www.aromat.ru/>
- <http://www.beautymall.ru/>
- <http://www.parfum-palace.ru/>
- <http://www.familyshop.ru/>
- <http://enigme.ru/>
- <http://www.parfumchik.ru/>
- <http://www.parfumclassic.ru/>

Market Issues & Obstacles

The general import duty on cosmetics and toiletries is 15%, plus the 18% VAT that applies to all imports.

Foreign quality marks (for example, those “clinically tested” in another country) or a GMP (Good Manufacturing Practice) label on the product, while useful for marketing, are not a substitute for Russian regulatory documents. Therefore, foreign firms must complete a registration/certification process in Russia, regardless of what products they plan to distribute or the reputation of the exporter.

Since the aforementioned registration/certification procedures are time-consuming, experts recommend that foreign exporters and/or their Russian partners begin preparation for obtaining the proper documents before any sales contract is concluded. If a product does not have appropriate certificates, Russian customs may stop the shipment at the point of entry. Consequently, pre-contract registration/certification is a safer and significantly cheaper way to import and distribute products in Russia.

Because registration/certification procedures require direct contact between the authorized manufacturer’s representative and experts from the appropriate regulatory bodies and government agencies, it is recommended that U.S. companies work with qualified partners (specialized consultant, distributor, or local representatives) on regulatory matters.

The regulatory procedures tend to change many times, so it is well advised to contact the U.S. Commercial Service for the updated information.

The regulatory process depends on the type of cosmetic product:

- *General cosmetics*
- *Cosmetics for special uses*
- *Alcohol containing cosmetics*
- *Cosmetics as pharmaceuticals*

General cosmetics

Necessary documents:

1. Sanitary Certificate that is valid for 5 years.
2. Declaration of Conformity that is valid for 1-3 years.
3. Letter from the Federal Service of Welfare of Population (Rospotrebnadzor) confirming that the product does not contain alcohol, valid for 1 year.
4. Information on the products' label approved by the authorities.

On February 2010, the obligatory certification of cosmetics changed to the simplified procedure of declaration of conformity. Declaration of conformity is to be registered by a certification organization, accredited by Federal Service of Standards and Metrology (Gosstandart). In some cases the procedure of declaration of conformity requires the series of tests.

Documents required for declaration of conformity:

1. Documents by appropriate authorities in the country of manufacture confirming the safety of the products for human beings: Free Sale Certificate, safety certificate, ISO certificate, registration certificate or others.
2. Copies of protocols of tests.
3. Samples for analysis if necessary.
4. Information on ingredients.
5. Copy of commercial contract for the products imported to Russia.
6. Notarized copy of company's registration in the Russian Federation (registration with Tax authorities for example). This is a necessary document for a Russian company that has been authorized by the U.S. company to be involved in all stages of getting all regulatory documents.

Certification procedures

First step: Obtaining a Sanitary Certificate at the Federal Service of Welfare of Population (Rospotrebnadzor).

1. Toxicology tests.
2. Clinical tests.
3. Physical – chemical tests.
4. Microbiological tests.
5. Receiving a Sanitary Certificate.

Second step: Declaration of conformity.

Third step: the Federal Service for Supervision over Consumer Rights Protection and Human Welfare issues a letter that the product does not contain alcohol.

Cosmetics for special uses require registration at the Federal Service for Supervision over Consumer Rights Protection and Human Welfare (Rospotrebnadzor). Such products include:

- a. Professional products used in beauty and spa salons (creams, masks, peelings, hair balsams).
- b. Sun-tanning and sun-less tanning products, skin-whitening products, products for tattoos (excluding injections), intimate care products.
- c. Protective cosmetics (creams, pastes and others) used during manufacturing.
- d. Cosmetics for children.
- e. Hair coloring products (excluding shading shampoos).
- f. Chemical hair curling.

Documents obtained upon registration

1. Registration certificate with no expiration date.
2. Information put on the products' label approved by the authorities.
3. Declaration of conformity.

Documents required for registration process

1. Documents from appropriate authorities in the country of manufacture confirming the safety of the products for human beings: Free Sale Certificate, registration certificate or others.
2. A document confirming that the manufacturing process of this product complies with national and international standards, for example GMP or ISO 9000-9002.
3. Document containing a full list of ingredients of the product.
4. Brief description of the manufacturing process.
5. Documents (standards, technical regulations, bylaws, technological instructions, specifications, recipes) that are used for the manufacturing process.
6. Certificates of conformity: analysis certificate, quality and safety passport, certificate of origin, or a similar document, preferably including the methods used in quality determination.
7. Consumer label or its draft in the Russian language stamped and signed by manufacturer, as well as a sample of the original label used in the country of manufacture.
8. Usage instructions, annotations (in case not all necessary information could be placed on the label).
9. Materials (original or from literature for analogues) regarding toxicological-hygienic estimate and efficiency; originals or copies of protocols of clinical study results in comparison with the control group with the name of the laboratory that has done them. All the above documents should be signed and stamped by the manufacturer.
10. Certificates of conformity of main ingredients - analysis certificate and safety passport, certificate of origin, or a similar document.

11. Protocols of tests and trials of accredited laboratories; conclusions of accredited organizations.
12. Documents on sample selection indicating the dates of selection, number, name of the product, manufacture's address, date of manufacture as well as names of individuals who participated in the selection process.
13. Copy of the trade mark certificate, patent.
14. Power of attorney issued by the manufacturer to a person/enterprise who will be involved in all the stages of obtaining a Registration Certificate.

Items: 3, 4, 12 should be on the manufacturer's letter head.

Items: 1,2,14 should be translated, legalized and have an Apostil obtained from one of the Russian Consulates in the United States.

Items 3-12: All pages of these documents should be stamped by the manufacturer and translated into the Russian language with the name and the diploma of the translator attached.

Items 9, 11, 13 – should be included if available.

Registration procedures

At the first stage of the registration process a manufacturer/representative contacts the Federal State Enterprise of Healthcare Information Metrological Center “Ekspertiza” (ФГУЗ ИМЦ “ Экспертиза”), whose parent organization is Rospotrebnadzor. This organization will direct the manufacturer/representative to the Central Enterprise for Certification of Perfume and Cosmetics (Certification Enterprise), whose parent organization is Gosstandart, which will be conducting tests.

After reviewing the documents that characterize the product and obtaining payment, the Certification Enterprise conducts sanitary-chemical and sanitary-microbiological tests. In some instances the Certification Enterprise can assign other necessary tests to be conducted by accredited laboratories, such as studies of toxicological, physiological and metabolic effects that will confirm safety of the products and clinical tests of efficiency/efficacy.

After careful consideration of the test results, the Central Enterprise writes a so-called “Expert Conclusion” and approves the draft label. During the next step the “Ekspertiza” writes an invoice for the Registration Certificate and state duty. At the same time the U.S. company or its representative should submit a set of documents that characterizes the product to the “Ekspertiza”. After obtaining an Expert Conclusion from Certification Enterprise, the “Ekspertiza” prepares the Registration Certificate, assigns a number, includes the product in the official registration list and approves the label.

On the basis of a written request from the manufacturer, a letter addressed to customs is written that will attest to the absence of alcohol in the product.

Alcohol-containing cosmetics

Documents obtained upon registration

1. Registration certificate that is valid for 5 years.

2. Information put on the products' label approved by the authorities.
3. Declaration of conformity.

Documents required for registration process

1. Declaration of conformity.
2. Sanitary-epidemiological conclusion (Sanitary Certificate) with protocols of tests.
3. Documents on sample selection from certification body.
4. Document containing a full list of ingredients of the product.
5. Notarized copy of company's registration in the Russian Federation (registration with the Tax authorities, for example). This is a necessary document for a Russian company that has been authorized by the U.S. company to be involved in all stages of getting all regulatory documents.

The authorized Russian representative submits an original and two copies all of the above documents to the Federal State Enterprise of Healthcare Information Metrological Center "Ekspertiza" (ФГУЗ ИМЦ "Экспертиза"). All the copies should be stamped and signed by the representative. All the originals are returned right after the documents have been considered.

Registration procedures

First step: Obtaining a Sanitary Certificate at Federal Service of Welfare of Population (Rospotrebnadzor).

1. Toxicology tests (if a product is used for eyes then the irritation effect is tested)
2. Clinical tests
3. Physical – chemical tests
4. Microbiological tests
5. Receiving Sanitary Certificate

Second step: Declaration of Conformity.

Third step: Receiving a Registration Certificate.

1. Documents are evaluated at Rospotrebnadzor (Federal Service for Supervision over Consumer Rights Protection and Human Welfare).
2. Documents are sent to Central Enterprise for Certification of Perfume and Cosmetics (Certification Enterprise) for expert conclusion.
3. Central Enterprise for Certification of Perfume and Cosmetics (Certification Enterprise) issues an expert conclusion.
4. Registration certificate is issued that is valid for 5 years if the delivery contract exists and there is no expiration date on technical documentation for the product.

Cosmetics claimed to be pharmaceuticals require registration at the Federal Service of Healthcare and Social Development as pharmaceutical product.

This registration procedure is the same as that used for pharmaceuticals. Since it is very specific and complicated, we strongly recommend that you contact the U.S. Commercial Service for detailed information and counseling.

Trade Events

Intercharm
20-23 October 2010
Moscow
<http://2010.intercharm.ru/en/home/>

KosmetikExpo
February 9-12, 2011
Moscow
<http://www.ki-expo.ru/en/>

Intercosmetics 2010
March 16-18, 2011
Moscow
<http://2010.intercharm.ru/en/home/>

Resources and Key Contacts

Perfumery and Cosmetic Association Of Russia
<http://www.pcar.ru>

Federal Service for Supervision over Consumer Rights Protection and Human Welfare
<http://www.rospotrebnadzor.ru>

Group of Companies Consult Business Group (PharmInform Ltd., MedInform Ltd.)
consulting company specializing in registration/certification
<http://c-b-g.ru/about>

For More Information

The U.S. Commercial Service in Moscow can be contacted via email at yuliya.vinogradova@trade.gov, Phone: 7 495 728-5586 or Vladivostok (Russia Far East) irina.podsushnaya@trade.doc.gov, Fax: 7 4232 499 381 or visit their website: www.export.gov/russia/en

SINGAPORE

Summary

The Singapore cosmetics and toiletries retail sector is worth approximately US\$400 million based on industry estimates. The U.S., France and Japan continue to be the top three leading suppliers of cosmetics, toiletries and fragrances to Singapore. The U.S. continues to enjoy a good reputation and is recognized by the consumer as one of the leaders in the industry. Its share of the market has stayed fairly constant over the last few years. Brands from Korea, however, are fast gaining popularity as Korean products enjoy high visibility because of Korean soap operas that have recently become popular here.

The beauty business is fairly resilient to economic cycles and continues to thrive in affluent Singapore. Industry sources say that approximately five new brands enter the market each year but this however, does not necessarily translate to a significant growth in the consumer base. To stay relevant, top brands invest heavily on advertising, promotions and marketing as well as research & development. The product life cycles tend to be short and new brands and differentiated products are regularly being introduced to the market. Products are constantly evolving and improved upon to satisfy the needs and wants of the discerning consumer.

The domestic retail market is sophisticated with various market segments, from those with high disposable incomes who seek premium and high-quality products, to mass-market consumers who are more price-sensitive and less loyal to brands. Besides an affluent, local resident population, Singapore is also home to over a million foreigners, with a significant expatriate population that enjoys and demands a high-quality lifestyle.

U.S. companies seeking to expand into the emerging markets of Southeast Asia should consider using Singapore to launch their products and services. With more than 80% of all imports of cosmetics, toiletries and fragrances re-exported, Singapore serves as an ideal gateway into the region and a showcase for the region.

Market Demand

Products that have sunscreen, anti-aging and brightening properties have experienced dynamic growth over the last two years. This is the result of greater awareness of the harmful effects of the sun's UV rays as well as the changing demographics of the population. Increasingly, sun care products are being bundled with regular skin care regimes and sunscreen ingredients are added to facial cream formulations for easy application. Men's grooming products and deodorants have also expanded and this growth is underpinned by an increasing number of "metrosexuals" – affluent men who are conscious of how they look. Image-conscious women who place high priority on personal grooming and appearance continue to be a good market segment to focus on. There is a trend of adolescent girls starting to apply makeup and experiment with

hairstyles and hair care at a younger-age. Recognising these trends, both traditional retail marketers as well as multi-level marketing firms have increased their market presence as they promote their products under the “holistic and wellness” label, cross-selling cosmetics, hair care, skin care and nutritional supplements.

Private labels fared relatively well, maintaining their market share in the past two years, largely due to the sustained popularity of “house brand” cosmetics and toiletries, such as Marks & Spencer, a brand largely accepted by Singaporeans as high quality. Other popular private labels include The Body Shop and the more mass-market, Watsons and Guardian. Private label products also saw strong growth in personal care and men's grooming products.

The distribution channel with the greatest value share of cosmetics and toiletries sales in Singapore is department stores, accounting for nearly 31% of sales, followed by chain stores that are typically personal care stores and pharmacies located within suburban malls.

Growth in Singapore's cosmetics and toiletries market is expected to see more competition among the top premium brands and an increase in the number of companies serving ever more specialized niche markets. One growth segment is the organics sector. While not going head-on against the larger companies, these niche players will serve to expand the market by providing either unique or complementary products to consumers.

Market Data

In 2009, U.S. exports to Singapore were valued at US\$140 million, a marginal 0.5% decrease from US\$150 million in 2008. Despite the marginal decrease in total imports from the U.S., the market share increase by 1% to 11% of total imports. 2010 figures to date show that U.S. imports remain stable, accounting for 11% market share, unchanged from 2009. This augurs well for the sector as despite the global economic crisis, imports from and market share of the U.S. remained resilient.

The U.S., together with France, continues to dominate the market for exports of cosmetics, skincare and fragrances to Singapore. France continues to enjoy the No. 1 position for perfumes and skincare with the U.S. is in No. 2 position for perfumes and No. 3 for skincare preparations. Japan enjoys the No. 2 position for import of skincare preparations. The U.S. enjoys the No. 1 position for manicure and pedicure preparations and ranks No. 4 for hair care preparations.

Best Prospects

Skincare: Sales of skin care products in Singapore continue to see growth as discerning consumers seek new and better products. A new marketing approach, termed “cosmeceuticals” is fast becoming the industry norm as cosmetics giants use

biotechnology and medical breakthroughs in their skincare formulations. Today's skincare companies are marrying science to mass customization.

The “metrosexual” niche market segment has evolved over the last few years and industry players have been quick to tap and grow this sector. The more responsive marketers, such as veteran skincare companies, have developed marketing strategies to target the new-age man. Some enterprising spa operators have opened men-only spas and have been successful with this strategy.

Skin care products with whitening properties continue to remain very popular though marketers are moving away from terms like “whitening”, preferring to use “brightening” instead. Manufacturers of both premium and mass market brands are launching their own “brightening” and “radiance” ranges as they chase the consumer dollar.

Consumers, in general, are willing to spend on premium products as long as these products are able to deliver the desired results and at greater convenience. Sales of super premium products are expected to remain largely unchanged, as their prohibitive costs put them beyond the reach of the majority of consumers. That said, they also enjoy strong brand loyalty and will continue to be purchased by their loyal customers.

Color Cosmetics: Sales of color cosmetics in Singapore have remained constant these past two years. Facial make-up continues to be the most dynamic performing of all color cosmetics product. An increasing number of image-conscious, career women and the growing number of girls who start using make-up at a younger age contributed to the sustained performance of this sub-sector. The focus is on brightening products and products with SPF (sun protection factor). Given Singapore’s harsh equatorial climate, the minimalist approach to make-up is best and products that are light to the skin and offer sun protection are sought after. Brightening products continue to attract users in Singapore as Asian women in general prefer to have paler complexions.

The majority of women consider color cosmetics a necessity, a trend seen in many affluent societies with a significant population of working women. Thus, growth is expected to remain strong. Products such as eye make-up, manicure and pedicure products have increasingly become part of everyday grooming routines. Nail spas that also specialize in nail art are very popular and more women are visiting them on a regular basis.

Brand loyalty to nail care and color is low, but women, regardless of their income levels, have also demonstrated a propensity to spend money on premium brands if products are particularly trendy or attractive. This is true for products such as lipsticks and lip gloss due to their relatively low prices.

Hair Care: Hair care sales continued to grow underpinned by an increased usage of colorants, styling agents and salon hair care products. Salon stylists are using more aggressive sales tactics, promotion packages and loyalty programs to encourage their clients to purchase and stay with them. These hair stylists take on the role of advisers and

provide styling advice to their patrons. Modern households tend to use more than one brand or type of shampoo in order to meet the varying needs of each family member. Consumers are also more likely to try a variety of shampoos and will typically have more than three different brands in the home at any one time.

Demand for hair conditioners and moisturizers grew over the past few years as consumers understand the need for "conditioning" in order to have healthy hair. In contrast, the rates of increase achieved by 2-in-1 products declined due to the perceived negative effects of such products.

Sales of styling agents and hairsprays saw an increase as more consumers spend additional effort in varying their hairstyles. Styling agents are also popular among individuals who have short hair and follow trends in hair fashion. Hair colorants continue to enjoy brisk sales as there is a trend towards coloring hair in various shades of brown and other non-conventional colors like blond, purple and red, a change from most Singaporeans' naturally black or dark brown hair. Products that cover gray hair also enjoy popularity because of premature graying among some Singaporeans and an ageing population. Hair colorants are also now available in grocery stores as well as pharmacies/drugstores as previous restrictions limiting sales of these products to pharmacies were relaxed in June 2001. The growth of hair colorants is also fuelled by the influx of a new generation of younger consumers. School-age youths color their hair during school vacations and re-color them back to a more natural color when schools reopen. These younger consumers are more receptive towards change and open to experimentation with colors, viewing colored hair as an assertion of self-expression.

Fragrance: Sales of fragrances remained constant this past year. Premium women's fragrances dominated overall fragrance sales as women are more likely than men to own a variety of different perfumes / scents. The past two years have seen consumer preferences for fragrances that are light, fresh and fruity; as opposed to stronger, musky scents.

Sales of mass fragrances are extremely diverse and very fragmented. Various mass brands emerge every year, many of which are attempts to imitate popular premium fragrances. They are often released without fanfare or promotion.

Given the intense competition in the cosmetics and toiletries sector in what some industry players label as a recession-proof sector, prestige brand names are investing heavily to maintain and increase market share. In the last several years, the trend has been for such market leaders to launch novel programs such as "Rewards Programs" targeted at promoting brand loyalty, giving perks and freebies to keep the consumer happy and loyal. Advertising and promotion programs have also been stepped up to reinforce brand image and awareness.

Key Suppliers

Most of the cosmetics, toiletries and fragrances that are sold in Singapore are imported. The U.S. is among the top three major suppliers. U.S. cosmetics, toiletries and fragrance brands also invest heavily in advertising and promotions and enjoy “top-of-the-mind” brand awareness. American brands like Estee Lauder, Clinique, MAC, Dermalogica and many others are very entrenched and enjoy good sales and customer loyalty. They also invest heavily in research and development, marrying science and cosmetics. Over the years, more “cosmeceutical” breakthrough products have been launched with much success. Increasingly, skincare brands are complementing topical products with nutraceuticals and the trend is to improve skincare not only by applying good products on the skin but also from within, through oral nutritional supplements. Some European brands have registered an increase in sales from such a strategy.

Major competitors of the U.S. are France, traditionally strong in fashion and beauty; and Japan and Korea, perhaps because a large proportion of Singaporean consumers identify with Japan’s and Korea’s “Asianess” and pop culture.

Prospective Buyers

The Singapore retail scene comprises mainly large high-end departmental stores located in the city center, mid-range chain stores located in the neighbourhood hub centers and lower-end, more price-sensitive volume sales independent retail stores located in the many neighbourhoods and heartlands. Typically, U.S. made products do not compete in this low-end market segment.

Most prestige brands of cosmetics, toiletries and fragrances are found in the high-end departmental stores with an entire floor dedicated to them or concept stores like Sephora. As in the U.S., these established brands operate “counters” with an assigned sales representative or consultant that provides a full range of services, from facials, product demonstrations and trials. These high-end brand names also have good marketing budgets with aggressive in-store promotions for special occasions such as Christmas, Valentine’s Day, etc. This market segment enjoys strong brand loyalty among the customers.

On the mass market side of the spectrum, chain stores with outlets in neighbourhood shopping malls (in the suburbs) have also done extremely well in reaching to the general mass market population. Personal care chain stores like Watsons, Guardian, SaSa, Unity and Beauty Language boast over 200 outlets across the island. They carry a wide range of mass-market brands and products that are priced very competitively and enjoy high volume sales. These chains run regular in-store promotions targeted at the generally price-sensitive customers who respond best to sales promotions and volume discounts.

For the toiletries sector, major supermarket chains offer the best distribution channels and like the chain stores, this market segment is dominated by several key players. Besides

supermarket chains, there are quite a few independent retailers situated across the island-state and these typically do not require listing fees that chain stores generally ask for.

The Singapore retail scene is dominated by three major players, the Dairy Farm Group which runs the Cold Storage supermarket chain, Giant hypermarket, 7-Eleven stores and Guardian pharmacies and personal care stores; Watsons which operate over 50 personal care stores; NTUC which operates the largest number of supermarkets as well as the Unity chain of pharmacies and personal care stores and lastly, Carrefour, which operates two successful hypermarkets. Another player, Mustafa, which is sited outside the main Orchard Road belt in Little India, has carved a niche for itself by catering to the mass market customers, foreign workers and tourists. Like the other three large retail groups, procurement and buying decisions are made in Singapore for stores in the region.

Market Entry

Introducing products into Singapore is a fairly simple process and there are not many regulatory hurdles to clear in this regard. Obtaining product approval is a relatively straightforward process as long as the products being imported comply with regulations that govern cosmetics products.

U.S. companies who are new to the market and interested in exporting to Singapore should consider appointing a local distributor to represent their products. Given Singapore's small market size, most prospective distributors would ask for exclusive rights to sell the product. They most likely will also request for distribution rights to the neighbouring countries of Southeast Asia, such as Malaysia, Brunei and Indonesia. In turn, they will ensure that they commit their resources to promoting the product to the appropriate retailers and distribution channels and reap the benefits of their efforts should sales materialize.

Most major retailers operate across borders in South East Asia and distributors who are given regional rights will be in a better position to negotiate better promotional programs with the major retailers that operate in several markets.

There is no special legislation in Singapore governing agency / distributor agreements and therefore, such contracts should be based on mutually-beneficial and agreed terms and conditions between both parties.

U.S. exporters of cosmetics, toiletries and fragrances should evaluate the suitability of the distributor based on the product mix that they carry as well as the end-user customer profiles that he targets. As much as possible, product range and brands that the prospective distributor carries should complement that of the U.S. firm.

American companies should also be prepared to provide advertising and promotional (A&P) support for product launches so as to better build brand awareness and induce trial purchases. Besides A&P support, distributors or brand owners also have to pay listing

fees to have the products distributed in chain stores or major departmental stores. These initial costs can be high but the returns and volume sales are usually sustained because of the strong customer traffic and reach of these stores. Local distributors may request that the American firm fund half the cost of listing/slotting fees should they choose to market the products through the mass market retail channels.

If American firms are not prepared to provide A&P support, then they may wish to consider allowing Singaporean firms the option of private labelling where the brand ownership stays with the Singaporean firm and they take on the risk of product launch and brand promotion and sustainability.

Opportunities for Profile Building

U.S. products enjoy a good reputation in Singapore and U.S. exporters should use Singapore as a showcase to the region. For the Southeast Asian region, fashion trends are adopted first in Singapore before being introduced to the other neighbouring markets.

Market Issues & Obstacles

Singapore implemented the ASEAN (Association of South East Asian Nations) Cosmetic Directive or ACD on January 1, 2008. The aim of the ASEAN Harmonized Cosmetic Regulatory Scheme is to enhance cooperation to ensure safe and quality cosmetics marketed in ASEAN and eliminate restrictions to trade through harmonization of technical requirements.

Under the ACD, cosmetics will no longer be classified under Category I and II. Previously, category I products, which included those applied around the region of the eye and lips and oral dental hygiene, required product licensing prior to the manufacture, import, sale and supply.

Under the ACD, it is the companies' responsibility to notify the Health Sciences Authority, Singapore's equivalent of the FDA, and commit via self-declaration the assurance of product safety and quality.

The ACD is closely aligned with the European Cosmetic Directive and aims to be recognized internationally as a robust framework for regulating cosmetic products. It will provide a common definition for cosmetics, details ingredients NOT permitted in cosmetics and LISTS approved preservatives, colorants and UV filters. It also provides labeling requirements, guidelines on cosmetic GMP and cosmetic claims. More information can be found on

http://www.hsa.gov.sg/publish/hsaportal/en/health_products_regulation/cosmetic_products.html

Regulatory Environment

The controlling authority for the regulation and licensing of cosmetic products intended for human use is the Health Sciences Authority, Ministry of Health. Firms must also comply with the Health Products (Cosmetic Products-ASEAN Cosmetics Directive) Regulations. The Cosmetics Control Unit is responsible for administering the regulations for cosmetics products. More information can be found on <http://www.hsa.gov.sg> where you can download a copy of the Guidelines on the Control of Cosmetics Products.

Labeling Requirements

Labeling is required for all cosmetic products. Labels or labeling statements must be in English and be clearly legible. Other languages, if any, may be present on the label. The following information must appear on the container or package:

- Name of cosmetic product
- Function of cosmetic product
- Instruction for use
- Full ingredient listing
- Country of manufacture
- Contents (weight/volume)
- Batch number/reference
- Manufacturing/Expiry date (required for products with less than 30 months durability)
- Name and address of company in Singapore responsible for placing product on the market
- Special precautions, if any (please refer to the ACD)

Taxes

There are no import or custom duties on cosmetics, toiletries and fragrances. A 7% goods and services tax (GST) is imposed on all goods sold and services provided locally. Imports are subject to GST, but payments are refundable for re-exports.

Resources and Key Contacts

Companies interested in exploring the Singapore market can refer to the list of contacts listed below:-

Health Sciences Authority

<http://www.hsa.gov.sg>

The Cosmetics, Toiletry & Fragrance Association of Singapore

<http://www.ctfas.org.sg>

Spa Association of Singapore

<http://www.spaassociation.org.sg>

For More Information

The U.S. Commercial Service in Singapore can be contacted via e-mail at: Luanne.Theseira@trade.gov; Phone: 65/6476 9037; Fax: [65/6476 9080 or visit their website: www.trade.gov/singapore.

TAIWAN

Overview

Increases in living standards and income along with changes in consumption patterns over the last several decades in Taiwan have given rise to a lucrative market for personal care products valued at an estimated US\$1 billion in 2009. Although the market had not increased much, the fact that it did show three percent growth of 2008 which shows the personal care products market remain strong despite the economic recession. This market is extremely competitive with most of the major international players involved in market development. Many of the popular brands and new to market personal care products have entered the Taiwan market in recent years. Expansion of sales channels together with increased male consumers and natural/organic ingredient products have contributed the growth.

Taiwan's personal care product market continues to be polarized, with products either focused on the premium end or on the lower-priced, mass-market end. Two distinct groups of consumers are becoming target audiences: those shopping at low-cost hypermarkets and drugstores and those shopping for very expensive and luxurious cosmetic at department stores.

Market Trends

A growing part of the island's male consumers have increased the market for men's personal care products due to their changes in lifestyles and consumption patterns. Taiwan male consumers are becoming increasingly aware of wellness issues and place attention on products such as shaving preparation, shampoo and conditioner, shower gel, facial cream, lip care, facial scrubs, mask, moisturizer, sunscreens, and light and fresh fragrance and after shave products. In 2009, this market increased to about twelve percent of the whole market, with sales totaling US\$142 million. This market is expected to continue have annual growth of ten percent, and will soon reach US\$200 million. All multinational personal care products firms are pushing men's beauty lines because competition in the traditional female demographic has become overwhelming and sales growth difficult to maintain. The women's market is becoming saturated in Taiwan. Lately, this category of "grooming men", who purchase products for themselves, is increasing whereas in the past women used to buy the products for their boyfriends or husbands. Men's personal care products are becoming a significant market sub-sector. Major consumers were aged 14 to 28, but the industry experts forecast the demographic will expand to include higher age group in the future.

Natural and organic ingredients are reporting high demand because of the surge in consumer demand for chemically-clean products. Natural and organic is one of the fastest growing sectors of Taiwan's personal care products industry. Some of the ingredients that are showing high demand are natural actives, natural extracts, organic oils, and essential oils, etc. The major advantage that US suppliers have over Asian

manufacturer is that they have developed highly effective chemically-clean products. US suppliers have formulated, developed and launched certified natural and organic personal care products that meet the performance of conventional products, whereas local manufacturers have yet to make these kinds of products.

Baby health and beauty products also have niche opportunities in Taiwan. A few of the most popular imported natural/organic baby products brands in Taiwan include Burt's Bees, Earth Mama Angel Baby, Aveeno Baby, and Baby Organic. Some of the common factors Taiwan parents seek in baby/kids personal care products are: free from artificial scents, colors, and preservatives, paraben-free, talc-free, and products that only have natural/organic ingredients. These factors also apply for the products preferences of mother-to-be and lactating mothers. Fluoride-free organic toothpaste is also becoming popular, though Taiwan companies are currently not manufacturing these products.

Strong marketing is a necessity in Taiwan. In step with global promotions, international companies have spent large sums building brand advertising campaigns using promotions in local TV, newspapers and magazine ads. Important factors for product acceptance and success are brand image and perceived product quality, while price and special features are also rank significant.

Market Assessment

Local consumers have traditionally claimed the suitability of Japanese skin care products to their Asian skin type as the primary reason for their preference of Japanese products over US and European products. SKII, Shiseido, Kose, and Shu Uemura are the most popular Japan-made brands. Both Estee Lauder and L'Oreal have introduced lines of whitening products especially formulated for Asians to combat this misconception.

Proctor & Gamble's Vidal Sassoon, Pantene, and Head & Shoulders are the market leaders in the retail shampoo market and L'Oreal's hair products are the leading hair dye/styling sector products. Johnson & Johnson, Neutrogena, Revlon and Dove are also popular brands. In the professional hair products sector, Paul Mitchell, Matrix, Redken, Aveda and Kerastase dominate the salons. Sales of styling agents and hairsprays have also increased as more consumers spend more effort in varying their hairstyles. The growth of hair coloring and styling products has been fueled by a new generation of consumers. In the past, Taiwan consumers considered fragrance products as luxuries or superfluous. The market has experienced a new wave of interest, in the last couple of years, as foreign suppliers, using strong media influence, successfully introduced several major brands of fragrance products. Light and fresh fragrance products are the preference among local consumers.

Local firms enjoy a strong position in personal hygiene products. Many of their products are supplied from their joint venture factories in China. Taiwanese firms meet less than 15% of the local market demand for personal care products. Taiwan Shiseido, Kiss Me Cosmetics, Grandglory, and Mesasa are major local suppliers and are limited to the low-

end market sector. Of the 111 registered firms engaged in cosmetics manufacturing in Taiwan, 80% are small operations with operating capital of less than US\$1 million. Cost concerns have prompted more than 70% of these firms to shift at least part of their production to mainland China. The others focus on OEM production and exporting to the United States, Middle-Eastern, and Southeast Asian markets.

Statistical Data

In 2009, imported personal care products met 85% of local demand, as there was very little domestic production for local market. Japan was the largest supplier with a 33.4% share, followed by the U.S. (15.2%), France (13.3%), South Korea (3.8%) and Germany (3.5%).

Statistics: Taiwan's personal care products

Unit: US\$ million

	2008	2009	2010 (e)	Growth Rate
Import Market	1,041.7	1,068.3	1,100.0	2-4
Local Production	323.0	342.0	350.0	
Exports	215.8	216.8	220.0	
Total Market	1,148.9	1,193.5	1,230.0	2-4
Imports from US	154.5	162.2	167.1	4-6

Sources: Industry Technology Intelligence Services (ITIS), Ministry of Economic Affairs 2010

The outlook for sales of foreign-made items should continue to be bright, since imported products are perceived to be superior to domestic brands. Imports are thus projected to increase at a faster rate than overall market growth. Japanese brands entered the market early and their influence has always been especially strong with brands such as Shiseido, Shu Uemura, Kanebo and Kose well recognized. Western brands, including L'Oreal, Estee Lauder and Proctor & Gamble's brand lines are also now well established. South Korea cosmetic and personal care products suppliers are the most aggressive party to expand their personal care products into Taiwan market with huge budget of branding and marketing their products.

Market Demand

Most recently, leading players have begun to introduce products aimed at different age groups in an attempt to build market segmentation shares. Women 18 - 44 years old (population 4.7 million) represent 70 percent of the consumer base for skin care products. The market for anti-aging skin care products aimed at women aged 35 and older is strong and the prices that upper-end products in this category command reflect increasing levels of disposable income. The consumer base for cosmetics is expanding to include females aged 15 - 24 (population 1.8 million) since this group is starting to use make up products 5 - 8 years earlier than the previous generation of women. High school and college students have greater purchasing power than ever before and favor fashion and new-to-

market products. As a result, many local vendors conduct free skin care/make up seminars in office settings and on college campuses to demonstrate their products.

A small, but growing niche market exists for environmentally friendly and natural-ingredient based products. An increasing interest in environmental issues as well as organic and natural products parallels similar trends in Europe and the United States. This niche offers opportunities for U.S. manufacturers and some companies are aggressively marketing their lines. Aveda, Red Earth, Origins, Kiehl's and Body Shop are all active in this market.

Market Entry

Given the large size and slow, but steady growth of Taiwan's market, there has been a flurry of investment from large cosmetic manufacturers, ingredient companies, and retailers over last two years. Large cosmetic companies such as Estee Lauder, Aveda, Kiehl's, L'Occitane, Aesop, Dr. Bronner's, Nature's Gate, the Body Shop, and Henkel have introduced certified natural and organic cosmetic products. Others like Clarins and L'Oreal have acquired dedicated natural and organic cosmetic companies. Brands like Jason, Burt's Bees, Nature's Gate, Avalon, J.R. Watkins, Dr. Bronner's, Nuxe, and Zero, with organic certified guarantees, have gained favor with local consumers distributing through local chain drugstores. Multi-level marketing is popular in Taiwan and companies such as Nuskin, Amway, and Sunrider are well-accepted brands. Local Taiwan companies have also launched many natural and organic cosmetics products under their private labels in local department stores and specialty stores.

Imported cosmetics and related products face import duties (around 7.5 -10 percent of the C.I.F. value), and a value-added tax (5 percent). Foreign-made personal care products are typically imported to Taiwan through branch offices, agents, or trading companies. Import licenses issued by the Board of Foreign Trade (BOFT) are required for all imported cosmetics-related products.

Best Prospects

In recent years, the Asia-Pacific region has seen a booming cosmetics market with an increasing demand for natural and organic personal care products. In fact, the natural and organic niches are the fastest growing segments of the cosmetics industry, with sales increasing by about 20% a year compared to 2% for cosmetics overall. Increased consumer interest in chemical-free products is driving this surge in demand for natural and organic ingredients.

Taiwan consumers are increasingly knowledgeable about organic certification and natural standards, and foreign-made products are more trusted than local brands, due to local consumer perceptions that international certifications ensure product standards and quality. The major advantage that European and North American companies have over

Asian companies is that they have developed highly effective chemical-free cosmetic products. Manufacturers in these regions have formulated, developed, and launched certified natural and organic cosmetics that meet the performance of conventional products, whereas Asian companies have yet to make such products. Consumers have confidence in the quality of imported products because the local authorities have strict regulations on natural and organic products manufactured overseas to ensure purity and quality. As a result, natural products from foreign suppliers are prominently displayed on the shelves of many chain specialty stores and are well accepted by local consumers. The greatest demand in this market is for facial cream/emulsion/liquid, foundation, lipstick, face covering cosmetics, eye makeup, cleansing cream/tonic, nail-polishes and decorating products, fragrance products and medicated skin care products, especially:

- Whitening Products
- Sunscreen Protection Products
- Anti-ageing Products

Sunscreen protection and whitening products are among the most popular medicated cosmetic items in Taiwan. Many consumers purchase skin care products rather than color makeup. According to one local major distributor's estimate, 35 percent of total sales go to whitening products while one-third of all customers purchase sunscreen protection products regularly.

Distribution Channels

Distribution channels for personal care products are generally divided into following principal categories:

1. Department Stores:

This is the primary channel for high-end and internationally recognized brands. Despite the cost and difficulty of acquiring top quality space and for first floor displays in department stores, this approach is important to the image of quality cosmetic products. This presents additional challenges for new-to-market brand products, which must compete with the existing international brands in this market. Taiwan's 50 major department stores account for approximately 42 percent of total cosmetics sales on the island.

2. Specialty Stores:

This category covers a wide range of drugstores and discount store types, such as Sasa, Marsa, Cosmed, and Watson's. A relatively new phenomenon in Taiwan is the specialty chain store. These outlets have room for brand name discount products from different sources (parallel imports) and new-to-market products. Competitive pricing is the specialty stores' most important attraction. This strategy has secured more than 10 percent of total cosmetic sales.

3. Hypermarkets

Natural/Organic personal care products began to spread among trendy professionals, capitalizing on this trend, many hypermarket malls that previously focused on this kind of products. Furthermore, private labels products saw strong growth through hypermarkets and acceptance is high by the consumers.

4. Beauty and Skin Care Salons:

These sales outlets appeal to customers with strong brand loyalty and seek to establish long term relationships with clients who are able to invest in beauty programs. Around 15 percent of cosmetic sales are conducted through this channel.

5. Direct Sales:

Direct marketing channels are still developing in Taiwan. "Multi-level marketing" programs offer an increasingly popular way to moonlight to supplement household income. There are estimated 600 "direct sales" businesses in Taiwan, specializing primarily in health foods and cosmetic products - skin care and cleaning products. Firms such as Avon, Amway, Nuskin, Mary Kay, and Sunrider have all successfully tapped the sales skills of the local population. Around 22 percent of total cosmetic sales are conducted through this channel.

6. Internet Sales

Taiwan is one of the most wired countries in the world with around 70% of households having high speed internet access at home ranking it the 10th largest in per capital internet usage. Many individuals establish websites to sell brand name personal care products through parallel imports. It is a hot business model which may harm the business with the regular importers. Two major local internet service providers PChome and Yahoo Taiwan have established their shopping websites to sell dietary supplements, cosmetic and toiletries with great success.

7. Home Shopping/TV Shopping

This is very popular distribution method for skin care and personal care products. In Taiwan, there are four major players: EHS (Eastern Home Shopping & Leisure), Momo (Fubon Multimedia Technology), Viva TV Homeshopping, and U-Life Shopping Channel on local television. Most of them handle consumer goods, especially dietary supplements and personal care products from local importers but imported from suppliers directly.

Resources & Contacts

Department of Health

Website: <http://www.doh.gov.tw>

Food & Drug Administration, Department of Health Website: www.fda.gov.tw

American Chamber of Commerce Taipei

Website: <http://www.amcham.com.tw>

Taiwan Cosmetics Industry Association
[cos.org.tw](http://www.twcia-cos.org.tw)

Website: [http://www.twcia-](http://www.twcia-cos.org.tw)

Taipei Cosmetic Industry Association

Website: <http://tcia2003.org>

For More Information

The U.S. Commercial Service in Taipei can be contacted via e-mail at:
Shirley.wang@trade.gov; Phone: 886-2-2720-1550; Fax: 886-2-2757-87162; or visit their
website: www.export.gov/taiwan/zh

THAILAND

Summary

The cosmetics market in Thailand is highly competitive. Most international manufacturers and suppliers of cosmetic products are represented in Thailand. All of them invest heavily in promotional campaigns as a way to retain their market shares and to stimulate demand. The structure of the market is comprised of four highly competitive sectors: hair care, make-up, skin care, and perfume. Overall, cosmetic products from the US, the lead cosmetic importer, comprise 20 percent of the import market. Products from France also dominate the perfume import market with a 64 percent share. Channels of distribution for cosmetic products include direct sales, counter sales at department stores, and hanging sales at specialty stores. The importation and marketing of cosmetic products is controlled by the Food and Drug Administration Office of the Ministry of Public Health. Approval by this office is required prior to the importation of all cosmetic products.

Market Overview

The overall growth rate of the cosmetic products market in Thailand for 2010 was 7 percent. The growth rate for 2011 is expected to be at approximately 10 percent due mainly to a more stable economy and an increase in local consumption. In 2010, hair care made up 30 percent of the total market, with 7 percent growth from 2009. The market share of make-up products was also 29 percent with 6 percent growth rate. Skin care products had the highest market share, with 37 percent and a growth rate of 9 percent. Finally, perfume had the lowest market share of 4 percent with a growth rate of 4 percent.

The overall market demand for cosmetic products has had a single digit growth rate over the past several years, despite heavy marketing promotion efforts by most major cosmetic manufacturers. Consumer behavior and spending on cosmetic products is expected to remain stable as beauty and appearance are still major concerns of most women in Thailand. Most high income customers will adhere to the same brands they are currently using, but will prolong or delay their next purchases. Brand loyalty is still strong among medium- to high-end cosmetic products. Low income customers are expected to switch to a less expensive brand of cosmetic products. Brand loyalty among low income customers is traditionally low.

The demand for problem-solving product lines, which include anti-aging facial and body cream, anti-dandruff hair care, and whitening facial and body lotion, is high and will remain a major focus group of products in this market for some time. Products from the U.S. dominate this sub-sector with approximately a 27 percent share of the market. Leading international brands include: Estee Lauder, Clinique, Shiseido, Christian Dior, L'Oreal, Olay, Eucerin, and La Roche-Posay.

Growing popularity of cosmetic products specially designed for men have attracted many more international manufacturers to enter this market during the past few years. Apart from perfume, other products in this subsector still are limited to deodorants, and facial and skin care.

Market share by subsector:

	2008 Mil. US\$	2009 Mil. US\$	2010 Mil. US\$	Growth (Over 2009) %	Share (2010) %
Hair Care	362	328	351	7	30
Make Up	350	328	351	7	30
Skin Care	409	404	432	7	37
Perfume	47	33	35	6	3
Total	1,168	1,093	1,169	7	100

US\$1: THB30

Sources: Industrial Estimate.

The structure of the cosmetic market in Thailand is comprised of four main groups: hair care, make-up, skin care products, and perfume. With the exception of perfume, market share of the three subsectors are almost equally distributed. Hair care, make-up and skin care products have an equal share at approximately 32 percent. Perfume products have a three percent share of the market. The market growth for hair care, make up and skin care are almost the same at 5 percent, while perfume maintains double-digit growth at 11 percent.

Market Data

Brand image is a very important marketing factor when marketing high-end cosmetic products in Thailand. The majority of products are marketed through counter sales at department stores. Brand loyalty is very strong in this segment of the market, and price competition is very rare. Premiums are used as a promotional tool. Locally produced cosmetic products are mainly geared toward the medium and low-income markets. Most of the products in this segment are marketed through mass marketing where price competition is always high. Brand retention and identification are normally used as advertising strategies in this market. Sampling and premiums are widely used in promotional campaigns.

Anti-aging cosmetic products in both the higher and lower ends of the quality spectrum continue to have a strong presence in the cosmetics market in Thailand. Anti-aging products have become the norm among cosmetic users-both male and female. This trend is expected to continue for many years to come. Females seem to be more receptive to the anti-aging concept than males. Most anti-aging products involve skin care, especially facial care. Anti-aging facial care cream and lotion products do very well with high-end

customers with whom price is not usually an issue. Generally, customers understand and accept the relationship between the quality of anti-aging products and the price, where high quality usually correlates to high price.

Cosmetic products with whitening properties do very well in the Thai market as well. The popularity of whitening products may be related to the dark complexions of most Thai people and their desire to become lighter skinned. The most popular cosmetic products containing whitening agent are facial creams and lotions especially those of medium to low quality. There are some high-end facial care products that contain a whitening agent available in the Thai market. Deodorant products that contain whitening agents also do very well. Many roll-on deodorant suppliers appear to compete more on the basis of their product's whitening property than the basic quality of deodorant.

Thailand remains a strong manufacturer and exporter of shampoos and other hair care products, color cosmetics and skin care products. Local production is mainly geared towards low to medium quality color cosmetics (make-up, lipsticks, nail polish), skin care products (body lotion and bar/liquid soap) and hair care products (mainly shampoo and conditioners). Thai manufacturers of cosmetics are well known for their high quality OEM products. Cosmetic products are available in the country at all levels of quality and brand recognition ranging from high-end, well-known international brands to low-end, low quality, locally produced brands. Leading international companies that have production facilities in Thailand include Unilever, Procter & Gamble, Colgate-Palmolive, L'Oreal, and Johnson & Johnson.

Import Market

	2008 Mil. US\$	2009 Mil. US\$	2010 Mil. US\$
Total Market Size	1,168	1,093	1,169
Total Local Production	1,683	1,765	2,058
Total Exports*	827	974	1,226
Total Imports*	312	302	337
Imports from the U.S.*	62	63	66

*The Thai Customs Department, Ministry of Finance
Exchange rate: US\$1:THB30

In 2010, imports from the US led the import market with a share of 20 percent (\$66 million), followed by France at 16 percent (\$55 million), Japan at 12 percent (\$42 million), China at 4 percent (\$15 million), the United Kingdom at 4 percent (\$14 million), Germany at 3 percent (\$11 million), and other countries including Italy, Belgium, Spain, and Switzerland at 41 percent.

Best Prospects

Best prospects for cosmetic products from the U.S. include:

- anti-aging facial treatment
- wrinkle free eye treatment
- whitening facial treatment
- whitening body lotion
- high-end make-up and skin care
- organic cosmetic products

Key Suppliers

Competition between suppliers and distributors of cosmetic products is always strong, especially between manufacturers of medium to low quality body care, skin care, and hair care products. Suppliers of said products frequently introduce new marketing strategies as a way to not only retain existing customers but also to capture a greater share of the market by enlarging their customer base.

All leading cosmetic companies invest heavily in promotional campaigns in order to stimulate the market. High-end international brand cosmetic companies use women's magazines as major advertising means. Premiums and point-of-sale promotional campaigns are also used regularly to stimulate sales. Counter sales at major department stores are the prevailing sales channel and account for approximately 30 percent of total cosmetic sales in Thailand. For medium- and low-end cosmetic products, television is the main venue used in advertising/marketing campaigns. Free sampling and giveaways are the two leading promotional strategies used to introduce new products and to stimulate sales of existing products. Unilever and Procter & Gamble are the country's all time leading spenders on advertising. The major channels of distribution for medium and low quality cosmetic products are discount, drug, and convenience stores as well as direct sales agents.

Use and promotion of herbal ingredients in cosmetic products have gradually died down. The market has been fully turned to promote whitening property in the cosmetic products. The inclusion of a whitening agent in facial and body care products is widely accepted by Thai buyers and for this reason, has become a highly popular marketing tool. The increasing popularity of spa treatment among locals and foreigners has created new demands for OEM contract manufacturing of cosmetics specially designed for spa consumption.

The overall growth potential for the cosmetic products during the next three years (2011-2013) is optimistically expected to be at approximately 10 percent. With an approximated customer base of 20 million (women between 15 and 55 years of age-mostly salaried workers), Thailand's market for cosmetic products has a strong group of potential buyers.

Prospective Buyers

In 2010, Thailand reported approximately 41 million inhabitants in the age range of 15 to 59 years of age. The female to male ratio of this segment was almost evenly split at 50 percent for each group, 20 million men and 21 million women. These 41 million people form the major customer and potential consumer base of the Thai cosmetic products market. The demographic can be broken down further into three categories.

15 to 29 years of age: There are approximately 16 million people in this age range, representing 39 percent of the total 41 million potential customers. There are approximately 8 million females and 8 million males in this demographic. Given their young age, most of these people may still have junior employment status and may not make very much money. This group of potential buyers is likely to fall in the low to medium quality/price range group of cosmetic products consumers.

30 to 44 years of age: There are approximately 15.5 million people in this age range, representing 38 percent of the total potential customers. There are 7.9 million females and 7.5 million males in this group of potential buyers. They are of a mature, working age group with mid-level to senior management. They are considered a good prospect within the medium to high quality cosmetic products market.

45 to 59 years of age: There are a total of 8.8 million people (4.3 million male, 4.5 million female) in this age range, representing 23 percent of the total potential customers. This group of people represents great consumer potential for high quality/price cosmetic products. Medium quality/price cosmetic products also enjoy great potential with this demographic.

Market Entry

Direct sales (60 percent) - direct selling has been very popular and is expected to remain a major marketing channel for cosmetic products in Thailand for many years to come. Direct selling is the most effective way of introducing new medium and low-end cosmetic products to the market. In the direct sales channel, price is more attractive than product quality. Some of the international direct-sale companies operating in Thailand include: Amway, Avon, Herbal Life, Nu Skin, Nu Life, Nature's Best, NutriMetric.

Counter sales (30 percent) - this is a standard venue for marketing high quality/price and internationally well-known brands of cosmetic products. There are 108 department store locations concentrated in major cities including Bangkok, Chiangmai, Choburi, Nakornratchasima, Phuket, and Songkhla. Major department stores include: Central Department Store (14 stores), Robinson Department Store (23 stores), The Mall Department Stores (6 stores), Emporium (1 store), Siam Paragon (1 store), ZEN (1 store), Tang Hua Seng (1 store).

Hanging sales (10 percent) - this channel is directed toward young buyers and the mass market for medium and low-end cosmetic products. Major players in this sector include: Boots, Watson, Red Earth, TOPs Supermarket, Big C, Carrefour, Tesco Lotus. Major brands of cosmetic include: Mary Kay, Maybelline, Oil of Olay, Johnson & Johnson, Procter & Gamble, and Unilever.

One of the requirements of the Thai FDA in registering a cosmetic product is a local contact address. This requirement limits international suppliers to two choices: either set up an office in Thailand or appoint local market representation. The use of distributors or agents to import and market cosmetic products is a common business practice. A distributor or agent in Thailand facilitates market entry and fulfills the Thai FDA's requirement of a local contact address before an applicant may register a cosmetic product. Generally, the distributor or agent will consider product registration as part of their job when representing international manufacturers.

Local distributors or agents not only provide an established relationship with buyers and end-users, they also provide assistance and service to international manufacturers. Said assistance normally includes product registration with the Thai FDA, customs clearing at port of entry, warehousing and product logistics, and marketing promotions. Distributors/agents in Thailand generally prefer an exclusive rights arrangement. There are several reasons for this preference. The leading reason is to avoid the price cutting practice that always takes place given the presence of multiple representatives. The other reason is the increased investment of efforts and promotional activities by the distributor in marketing the products. With the presence of multiple representations each distributor will be more likely to hesitate to invest in any form of promotion. It makes more sense to work with a distributor or agent, under realistic distributorship terms and conditions, in order to build up the business in Thailand.

Market Issues & Obstacles

The importation of cosmetic products is controlled by the Thai Food and Drug Administration (FDA) of the Ministry of Public Health. Product registration is required prior to the actual importation and marketing of the cosmetic products. The registration process is not complicated, but may take one to two months time. The basic documents required by the Thai FDA include:

- 1) A notarized Certificate of Free Sale or a Certificate of Manufacture issued by the manufacturer in the manufacturing country (United States)
- 2) A full ingredient/composition listing as issued by the manufacturer

Both documents have to be notarized and legalized either by the Thai Consulate in Washington, DC or the American Embassy in Bangkok, Thailand.

Import Duty

HS Code No.	Descriptions	Duty Rate (%)
3303	Perfume	30
3304	Make Up Products & Lotion	30
3305	Hair Care Products	20
3307	Shaving Products and Deodorant	20

Trade Events

Name: Thailand Health & Beauty Show 2012
Date: June, 2012
Venue: Siam Paragon Mall, Bangkok, Thailand
Website: www.thaitradefair.com

Resources & Contacts

Official contacts for import authorization and registration of cosmetic products are:

Food and Drug Administration
Ministry of Public Health
Royal Thai Government
Tivanont Road
Muang, Nonthaburi 11000
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Phone: 662-590-7003
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Cosmetic Control Division
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TURKEY

Market Overview

The cosmetics and personal care market size in Turkey is estimated as \$2.25 billion in 2009. The new Turkish Cosmetics Law numbered 5324 adopted in 2005, harmonized the legislation with the EU Cosmetics Directive 76/768/CEE and resulted in the market entry of hundreds of new international brands, addressing all segments from luxury to low-priced cosmetics. Turkey's high percentage of young people renders the Turkish cosmetics and personal care market a tough but promising battleground for both foreign and local companies.

Market Data & Demand

Cosmetic and personal care market in Turkey is developing rapidly in line with the economic development and rise in disposable incomes. During 2005-2010, the market grew between 10 to 20 percent annually, except for the global crisis year of 2009, when there was a 5 percent contraction.

The total cosmetics and personal care market size in Turkey is estimated to be around \$2.25 billion as of 2009. Although this volume does not represent a very large portion of the world cosmetics and personal care market of \$333 billion (2008 figure), the growth in recent years has been quite impressive. The average cosmetics and personal care spending per capita in Turkey has reached €18 (Euros) from €13 in 2006.

The premium cosmetics (upscale perfumery, make-up and skin care products) market is estimated to be worth \$500 million. 80 percent of the market consists of imported products and 20 percent of local products. Among the imported cosmetics, 35 percent are make-up and beauty products, 27 percent hair care products, 15 percent shaving products, 13 percent perfumes and fragrances, 7 percent dental care and hygiene products.

Turkey also has a dynamic cosmetics and personal care manufacturing base, supplying the Turkish market as well as exporting to area countries. The number of manufacturing firms registered with the Ministry of Health is above 1,400, with about 430 of them engaged only in the production of eau de cologne. Other main products produced locally include, soaps, hair products, shaving products, depilatories, deodorants, and make-up products. Turkish producers in the sector are mainly family-run SME's.

Manufacturing under license for international companies is a common practice in Turkey. Turkish production capabilities offer opportunities for exports to other markets in the region as well, mainly to the Caucasus, Russia, North Africa, Middle East, Central Asia and Europe. Turkey's cosmetics and personal care exports in 2009 reached \$820 million. Soap (40%), surface active organic substances, body deodorants and shaving products, shampoos and hair products, lip and eye make-up, wet wipes and cleaning tissues command the highest share of exports to other countries from Turkey.

75 percent of the Turkish cosmetics market consists of foreign capital multinational companies. The market is dominated by multinational companies, mainly Unilever, Procter&Gamble, Beiersdorf, Henkel and Colgate Palmolive. In premium cosmetic products, the shelves of the Turkish pharmacies, department stores and perfumeries clearly reflect the huge penetration by foreign brands: Elizabeth Arden, Helena Rubenstein, LVMH, Estee Lauder, L'oreal, Clarins, Bobbie Brown, Sally Hansen, OPI, Murad, just to name a few.

In March of 2005, the new Turkish Cosmetics Law numbered 5324 was adopted, aligning Turkey's cosmetics regulations to the EU legislation. The new law became a milestone in the sector, opening the market to international companies as well as developing local production to universal standards for chemicals, formulation and packaging.

After 2005, hundreds of new international brands entered the Turkish cosmetics market, addressing all market segments from luxury to low-priced cosmetics. Most sell through distributors, although some larger companies prefer to enter directly, or through methods of joint ventures, licensing agreements, and acquisitions.

The market is predicted to maintain a growth trend in the long term, due to the following conditions:

- A population of 73 million with Europe's youngest age average provides a strong and developing consumer base. About half of the population is below the age of twenty five.
- Per capita cosmetics and personal consumption is very low in Turkey at €18 compared with the West European average of €149 (2009 figures). Consumption is expected to rise as disposable income as well as awareness on the benefits of cosmetics and personal care increases (Low per capita consumption is not due solely to low income levels).
- The increasing number of working women, the worldwide trend to look younger and more attractive result in growing demand for cosmetics and personal care products.
- The strategic use of Turkey as a springboard to Middle Eastern, Caucasian and Central Asian markets is expected to lure new investments. Many private label brands in Europe are considering Turkey for new production bases.

Best prospects are found in cosmetics products with naturally derived and organic materials, anti-aging creams and lotions, slimming/cellulite treatments, hair products (natural hair colors, straightening products), raw materials and active ingredients. Good potential exists for cosmetics products aimed at non-traditional consumers such as men, babies, and the elderly.

Market Access

Cosmetics and personal care products are sold through below channels in Turkey:

Supermarkets: Mass market cosmetics and personal care products reach the consumers mainly through supermarket chains. Popular supermarket chains also offer products under their own private label.

Pharmacies: Turkey does not have drugstores, as by law, pharmaceuticals can only be sold at pharmacies. Turkish people trust pharmacists and many times ask the pharmacist for advice on health questions, which is also true for beauty and personal care issues. Therefore pharmacies are important channels to reach and inform the consumer face to face regarding products. There are over 22 thousand pharmacies all across Turkey, available cosmetics products and price ranges depend on the geographical area and size of the pharmacy. Around 6 thousand pharmacies offer premium cosmetics.

Perfumeries: There are many small mom&pop type cosmetics shops as well as larger cosmetics boutiques that have branched out into chains such as Tekin Acar, Sevil Kozmetik. These retailers are named “perfumeries” in Turkey. In addition to local perfumeries, Sephora also has cosmetic store chains located in the affluent shopping malls of Istanbul and Ankara. The product lines and prices of the perfumeries range from mass to super premium, depending on their store concept.

In addition, companies with individual branded store chains such as MAC, Kiehl’s, Inglot, Yves Rocher, Body Shop, and L’Occitane are in the market through their Turkish franchisors/distributors.

Cosmetics and personal care focused retail chains: In addition to locally owned cosmetics and personal care focused retailers such as Gratis, many new international companies have entered the market, concentrating in the largest cities. Some examples include, Hong Kong based Watsons, Douglas from Germany, and Rossman from Germany. In these stores, although the focus is on cosmetics and personal care products, other items such as household detergents, packaged food, stationary products, and simple jewelry can also be found.

Direct marketing: Direct marketing has proved a very successful concept in Turkey. Avon, established in 1993 is the market leader in overall cosmetics sales in Turkey. In the direct marketing segment, Oriflame and Amway also are in the market since 1993. Even during the global crisis year of 2009, direct marketing sales continued their upward trend in Turkey.

Cosmetics sections of department stores: Premium and super-premium cosmetics are sold at the cosmetics sections of the department stores such as Beymen, Harvey Nichols, YKM, Boyner. Due to the high competition to lure customers, some department stores buy directly from major international brands and sign exclusivity agreements, so that these brands can only be found at their stores.

Hairdressers, beauty salons and spas: Upscale hairdressers, beauty salons and spas offer their customers premium hair, skin care and make-up products, which they also use at their establishments.

Internet: Direct marketing companies in Turkey rely heavily on their internet sales. In addition, large perfumery chains are able to reach and sell to consumers in less developed cities of Turkey, through their websites.

Internationally, cosmetics internet retailers such as <http://www.strawberry.net> are becoming increasingly popular, gaining reputation through word-of mouth. These international retailers are able to offer 30-40 percent lower prices- avoiding the special consumption tax and the value added tax. It can be expected that the taxation of products purchased through foreign internet retailers will become a hotly debated topic in Turkey in the coming months.

Turkey's cosmetics market is a tough but promising battleground for both foreign and local manufacturers. Due to the rush of international brands to enter Turkey over the last five years, there are many alternatives available to the consumer. In order to gain market share, companies should be prepared to commit resources for the promotion of their products and brand building. In general, marketing costs are calculated as around 25 percent of the sales turnover, which is similar to European levels. Advertising in relevant media is important. Promotional and training activities targeting both representatives and customers are also essential tools for selling in Turkey. Some brands sponsor popular TV shows. In addition, it is useful to participate in major trade shows.

Pricing and payment terms must compete with European and Far Eastern prices, which is difficult in some cases given the disadvantage of higher shipping costs. European companies, which have a longer history of trading with Turkish buyers, usually are more flexible in accepting deferred payments – a common request by Turkish importers/distributors.

Market Issues & Obstacles

A special consumption tax is levied on items considered as luxury in Turkey since 2002, including cosmetics, fur, automobiles. Cosmetics products are subject to 20 percent Special Consumption Tax (Ozel Tuketim Vergisi-OTV in Turkish) in addition to the 18 percent VAT (Value Added Tax) at CIF prices, taken at Customs during the import process.

Turkey is in accession talks with the European Union and has adapted the EU Cosmetics Directive 76/768/CEE in 2005. Therefore a company selling its products within the EU would be able to comply with the Turkish cosmetics regulations. Below are some major articles of the legislation:

- It is prohibited to produce, or package a cosmetic product, or to establish and operate an importing company without notifying the Ministry of Health.

Enlarging the field of activity after the initial notification and without a subsequent notification to the Ministry of Health is also forbidden.

- Cosmetics companies are not allowed to operate without employing personnel qualified to render technical services.
- The technician required available in manufacturing or importing firms has the obligation to have knowledge of the country legislation. Pharmacists or chemists, chemical engineers, biologists or microbiologists who provide necessary documentation for proof of at least 2 years of working experience in the field of cosmetics may be employed as the responsible technician.
- The cosmetic product should not harm human health when applied under normal use. The presentation, packaging, and labeling of the product must include the producer's instructions for use.
- Cosmetic products containing inappropriate substances, or inappropriate amounts thereof, cannot be supplied in to the market.

Upcoming Trade Shows

Beauty & Care Turkey

March 3-6, 2011

The Istanbul Convention and Exhibition Center (ICEC)

Istanbul, Turkey

Organized by Interteks Trade Exhibitions and Health&Beauty Group

Phone: +90 212 225 0920 (12 lines)

Fax: +90 212 225 0933

E-mail: interteks@interteks.com

<http://www.interteks.com/English/>

Beauty Eurasia powered by Cosmoprof

June 16-18, 2011

TUYAP Exhibition Center

Istanbul, Turkey

Organized by: Ipekyolu International and Sogecos/BolognaFiere

Phone: +90 212 222 9060

Fax: +90 212 210 6176

E-mail 1: info@beautyeurasia.com

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E-mail: info@saglik.gov.tr

Web-Site:

<http://www.saglik.gov.tr/EN/Default.aspx?17A16AE30572D313AAF6AA849816B2EF4376734BED947CDE>

Cosmetics & Toiletries Industry Association
(Kozmetik ve Tuvalet Mustahzarlari Sanayicileri Dernegi)
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VIETNAM

Market overview

The cosmetics sector in Vietnam is still developing. Presently, the sale of cosmetics and beauty products is largely uncontrolled and is plagued by a wide range of fake, mislabeled, and smuggled products. The Vietnamese cosmetics market is highly price sensitive and full of lowcost “knock-offs”. International cosmetic giants must contend with these challenges when entering the market with their premium products. Vietnamese consumers typically spend about VND 45,000 (about US\$3) per year for cosmetics purchase at local street shops. Similar beauty products sold at department stores, supermarkets, and specialty cosmetics shops cost roughly twice as much.

Vietnamese consumers spent US\$82 million on beauty and skin care products in 2006. Illegal and unofficial imports are estimated to account for as much as 60 percent of these sales in Vietnam. Currently, Vietnamese women spend US\$3 – 4 per capita on cosmetics and beauty products per year. By contrast, other Asian countries spend the following amount per capita: Taiwan (US\$41.7), Korea (US\$40.9), Hong Kong (US\$35.7), Thailand (US\$19.5) and China (US\$10).

Consumer tastes and preferences for more sophisticated products are maturing and shifting towards quality brand names. This is especially so with younger consumers. Foreign companies already in Vietnam recognize the market’s future potential and are advertising aggressively. To capture more market share, local manufacturers are investing in more research and development, as well as marketing and distribution activities to compete with superior international brands. This growing and rapidly developing market offers numerous opportunities for American companies in the following segments: finished beauty products, raw cosmetics material and manufacturing technologies and related equipment for beauty products.

Market Size

It is estimated that 90-95 percent of the market for international cosmetics products in Vietnam is centered in the most cosmopolitan areas of the country, including Ho Chi Minh City in the south and Hanoi in the north. Relatively few sales of international cosmetics occur outside of these cities.

Vietnamese consumers are still not as familiar with American brand cosmetics compared with cosmetics from other countries. Additionally, local production of brand and non-brand cosmetic products is low compared with the level of imported beauty products. The market share for cosmetics products by foreign countries is as follows: Korea - 30%, EU - 23%, Japan - 17%, Thailand - 13%, US - 10%, and others - 7%.

Best Prospects

There are hundreds of locally produced brands and other low prestige cosmetics labels from China, Thailand and Taiwan, targeted towards the mass of low-income consumers. Foreign make-up and skin care products are steadily gaining in popularity among Vietnamese consumers. Sales of skin care products are expected to grow at around 10-15 percent annually over the next three years, as this previously untapped market segment becomes cluttered with more and more foreign and domestic brands. Although Vietnamese consumers still prefer skin care products from Europe and Japan, locally produced products account for more than 50 percent of the market for skin care products. The Vietnamese market for make-up products has transformed into a highly segmented one: development, distribution, and market positioning of such products are being targeted to consumer segments based on income, age, gender and profession. This contrasts with an earlier one-size-fits-all product offering evident less than a decade ago. Make-up products are expected to grow by approximately 7 percent per year over the next three years, with increasing demand for make-up products from Korea and Japan.

U.S. Market Position

U.S. cosmetics brands are generally well accepted by Vietnamese consumers. Brands such as Maybelline, Revlon, and Clinique have done well. Vietnamese consumers have not yet been exposed to many higher end brands, such as M.A.C., Guess and Estee Lauder. Given the limited exposure of Vietnamese consumers to American brands, most consumers are still uncertain where U.S. products rank in terms of prestige among beauty products. Several high-end U.S. cosmetics brands are available in the local market due to smuggling, even though there is no advertising and promotional support to develop their market share or to cultivate brand awareness. In sum, the market potential for future sales of US cosmetics is good. Brand awareness is starting to grow and local consumers are steadily spending more on cosmetics and beauty products.

Distribution Practices

Once suitable local distribution partners have been identified and selected, an effective distribution strategy must be formulated and implemented. There are three options:

1. Exclusive national distribution: Identifying and selecting a national distribution company to be the only licensed wholesaler in Vietnam.
2. Non-competing regional distribution: Identifying and selecting different distribution companies to be the only licensed wholesalers in each of the two primary local markets, Ho Chi Minh City and Hanoi.
3. Nationally tiered distribution: Identifying and selecting a primary national distribution company to resell to secondary or regional wholesalers.

Since the market in Ho Chi Minh City for cosmetics and beauty products is much larger than that of Hanoi, it is advisable to select a primary distribution company based in Ho Chi Minh City.

However, to serve the Hanoi market, a separate sales agent may be required because of the market's different characteristics.

Regulation & Taxation

Regulation:

Imported cosmetics and beauty products must be registered with the Ministry of Health (MoH) for quality assurance and identification purposes. The foreign party should have a contract with a local company that allows the foreign company to change the registration status of previously imported goods as well as any future imports to a different local distributor with appropriate notice if any problems should arise between the foreign exporter and the initial local distributor. The process of product registration is complex and often confusing to a foreign company. Local distributors are more familiar with the local requirements and for that reason can handle product registration easier and more efficiently.

Company registration

There are no regulations requiring foreign companies to obtain registration prior to exporting cosmetics to Vietnam.

Product registration

For products that fall under the cosmetic categories specified above, the exporter or importer must register the product with the MOH for quality assurance purposes. A permit must be obtained from the MOH to import the initial samples required for the health and safety inspections and quality assurance registration.

The term "cosmetics" encompasses "all substances or manufactured preparations used for direct application to external areas of the human body or to the teeth, gums or lining of the mouth with the sole or main purpose of cleansing, perfuming, changing appearance and body odor, and preserving or maintaining the body in a good condition"

The following items are classified as cosmetics that directly affect human health and welfare and are required to be registered for quality assurance purposes with the MoH for distribution and circulation within Vietnam:

- products applied to the skin (hand, face and legs) being creams, liquids, solutions, gels and oils;
- face masks (except for products not containing any chemical substance);
- all substances with a colour foundation (in the form of liquid, paste or powder);
- make-up powders, powder used after showering, hygiene powders;
- hygiene soaps, deodorant soaps;
- perfumes, hygiene scents and fragrances;
- products used when showering and washing (salts, soaps, shampoos, gels);
- hair removal products;
- deodorant products for the body and anti-perspiration deodorants;

- hair care products, such as: hair colouring products, hair colour removal products; hair waving products, products to stretch and set hair; permanent wave products; hair cleansing products (solutions, powders and shampoos); hair nourishing products (solutions, creams and shampoos);

hair beauty products (solutions, gels and pomades);

- products used when shaving beards (creams, soaps and solutions);
- beauty products for the face and eyes;
- lipsticks;
- teeth and mouth care products;
- fingernail and feet care products;
- personal hygiene products for ladies;
- sunscreen and sun tanning products;
- anti-ultraviolet ray protection products;
- skin whitening products;
- face care (anti-wrinkling) products.

Taxation:

The Vietnamese Value Added Tax (VAT) is ten percent. The tariff rate is reduced from 50 to 30 percent for perfume and fragrant lotion from the U.S, from 50 to 20-30 percent for cosmetics. The import duty on cosmetics products is calculated on the CIF value of the shipment. The VAT tax on imported goods is based on their CIF value plus the assessed import duty.

For More Information

The U.S. Commercial Service in Hanoi, Vietnam can be contacted via e-mail at Ngo.phuong@trade.gov; Phone: (84-4) 3850-5199; Fax: (84-4)3850-5064.

The U.S. Commercial Service in Ho Chi Minh City, Vietnam can be contacted via email at Nguyen.huong@trade.gov; Phone: (84-8) 3825-0490; Fax: (84-8) 3825-0491; or visit their website: www.export.gov/vietnam/en.

U.S. CONTACT LIST FOR COSMETICS/TOILETRIES INDUSTRY

For more information on exporting cosmetics and toiletries to the markets in this report, please contact the U.S. Department of Commerce Export Assistance Center Cosmetics/Toiletries Trade Specialist nearest to you.

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